ESTABLISHED 1839

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Volume 167 Number 4682 New York, N. Y., Thursday, March 18, 1948 Price 30 Cents a Copy

Truman Urges Defense Program

In address to Congress, he urges immediate passage of ERP, along with universal military training, restoration of selective service, and a strengthening of our armed services both at home and abroad. Accuses Russia of having already destroyed independence of series of nations.

President Harry S. Truman delivered a special address on March 17, before a joint session of both Houses of Congress, in which he reiterated his plea for swift aid to the Western European Powers, together with enactment of compulsory military training and a temporary restoration of selective service law. The full text of the President's address follows:

President Truman

I am here today to report to you on the critical nature of the situation in Europe, and to recommend action for your consideration.

Rapid changes are taking place in Europe, which affect our foreign policy and our national security. There is an increasing threat to nations which are striving to maintain a form of government which grants freedom to its citizens. The United States is deeply concerned with the sur-

(Continued on page 42)

Critical Situations in Our Economy

By WILSON WRIGHT*

Economist, Armstrong Cork Company
Staff Consultant, Council of Economic Advisers

Industrial economist lists as three most critical situations in our economy: (1) distortions of the price system and resulting false profit enlargement; (2) approaching decline in new business capital investment, particularly in equity securities, and (3) reduction in commercial bank capital in relation to assets and deposits. Holds we are "fooling ourselves" by enlarging profits as result of inventory accounting, and foresees many businesses unable to finance needs internally. Looks for end of commercial bank loan expansion.

I am going to discuss three critical factors or critical situations which have been developed in our economy and which are of major interest right now. First, I want to refer to the disorganization which has been developed in our price system. Recently I have had an opportunity to look at estimates of the salary increases which have been made in a number of corporations since 1939. The increases are increases in the base salary rates. The increase since 1939 approximates 50%. We have had approximately a 50% increase in the salaries paid in the larger corporations where the management uses standard classification systems. This is a gross increase. I am not taking into consideration the effect of increased tax rates. So we can say that the price of the service of many salaried employees has been increased by 50% since 1939, on a gross basis. At the

Wilson Wright

(Continued on page 26)

*From a paper of Mr. Wright, read at the 27th Annual Business and Professional Mens Group University of Cincinnati, Cincinnati, Ohio, Feb. 20, 1948.

1948—A Critical Year!

By HOWARD T. LEWIS*

Professor of Marketing, Harvard University
Editor, "Harvard Business Review"

Holding 1948 is critical year in which we have a chance to prepare for grave uncertainties ahead, both foreign and domestic, Harvard economist points out recent corporate profits are exaggerated to extent of $5 billion out of total of $17 billion. Says economic strains and stresses are beginning to show in our economy, and Federal Budget and tax policy are adversely affecting business. Looks for no serious price deflation and sees more danger to prosperity from within than from adverse conditions abroad.

Ever since I can remember, writers and speakers alike have designated the year in which they were speaking—whatever that year happened to be—as "critical." We have, indeed, stood at the "parting of the ways" so long that it would almost appear that we were there to establish a settlement rather than to decide down which of two or more paths we should proceed. I should therefore, be in excellent company and following a long established tradition were I to refer to 1948 as "the year of decision," if I may be pardoned for appropriating a phrase. And yet if any one year can be separated from those which have gone before and those which are to follow, one might have more than the usual justification for arguing

H. T. Lewis

(Continued on page 28)

*An address by Professor Lewis before the Purchasing Agents' Association of Salt Lake City, Utah, March 9, 1948.

EDITORIAL

As We See It

A Real Issue

While the host of politicians seeking office this year are busily engaged in their usual maneuvering—meanwhile, of course, avoiding all "dangerous" issues—we have a suggestion to make.

We make it in the belief that most of those individuals who aspire to public office this year, like those who now hold public office and have held public office in the past, are at bottom sincerely desirous of serving the public.

We make it at this moment because a great many — perhaps not quite as many as should be, but still a great many — of us have immediate personal reasons to be interested in the matter.

We refer to the Federal income tax with its enormously steep, or "progressive", gradation of the amount which the individual must pay to satisfy the Collector of Internal Revenue.

We call attention to it not because of any injustice that the present system may do to many private citizens —although there are many such injustices quite obvious to the naked eye.

(Continued on page 32)

Earnings or Confidence

By WILLIAM G. LYLE, JR.
Clark, Dodge & Co.

Mr. Lyle maintains price-earnings ratio is the "neglected child" in market analysis, although it has been the principal factor to date in an entirely logical bear market. Asserts market during past 18 months has been stalemated between very high level of earnings and low level of confidence, and henceforth a fall in earnings is far more probable than rise in confidence.

In the summer of 1946 the Bulls were arguing that because of prospective high earnings the market must go higher. At the same time, the Bears were arguing that earnings would shortly be sharply reduced and therefore the market would go lower. It seems that in approaching the market outlook for any appreciable period of time the great temptation exists to give intensive study to economic conditions, to estimate probable supply and demand and ultimate corporate profits, and thereby reach a conclusion that security prices are either too high or too low. This approach, however, appears to represent one of the time-honored booby traps in market analysis, for it is only half complete and is all the more dangerous for the deception it provides.

William G. Lyle, Jr.

The two equally important variables in the ultimate prices of securities that sell on other than a yield basis are (1) the earnings including the dividends resulting from these earnings, and (2) how the market values these earnings and dividends in terms of a price earnings ratio. Reduced to a simple formula you have, earnings times price earnings ratio= market price. Quite obviously earnings by themselves are of no significance without a price earnings ratio. Yet analytic efforts are devoted almost exclusively to the study of earnings alone while the equally important price earnings ratios are treated almost entirely on the basis of an historical average.

It is certainly of little value to the owner of a stock to know that his corporation will next year earn \$10 a share if he does not know whether those earnings will be valued in the market at five times or 15 times. Assuredly, few, if any, analysts were heard to say in May of 1946 that stocks should be sold because by the end of 1947 the country would be enjoying an unparalleled business boom, the F. R. B. index would be up to 192, and the Dow-Jones Industrial Stock Average would be earning roughly \$19 a share. No one was heard to argue that because of the above data the Dow-Jones average would decline 15% from the high, while Air Transport would be down 69%, movies down 51%, drugs and cosmetics down 45%, to mention a few groups which have suffered the most.

What has happened, of course, is that while total corporate dollar earnings have risen to historically very high points. price-earnings ratios have dropped to historically very low points. The outlook for industrial common stocks, therefore, depends equally on prospective earnings and the prospective value that investors can be expected to place on such earnings.

The Future of Earnings

Quite obviously, earnings can either rise, fall, or remain roughly unchanged. The same is true for price-earnings ratios. However, the science of market analysis, insofar as it can be called a science, is one of probabilities, and it is on this basis that departure must be taken. Starting with earnings, is it probable that during 1948 earnings will rise importantly? Considering that at

(Continued on page 37)

"Wolf, Wolf!!"

By WILLIAM F. EDWARDS

Vice-President in Charge of Research for Manhattan Bond Fund, Inc., and New York Stocks, Inc.

Dr. Edwards declares recent commodity price declines have reduced rather than increased danger of an early depression. Maintains weakest spot in our economy has been thereby removed, and long-term investment opportunities are now available.

The decline in farm commodity prices and the accompanying decline in stock prices have again set off a chorus of predictions that a serious business recession is close at hand. Similar predictions were made in the summer of 1946 and again in the spring of 1947, only to be followed by continued active business, a high level of corporate earnings and increased dividend payments.

Dr. Wm. Edwards

We are reminded of the story of the shepherd boy who called, "Wolf, wolf!" If these predictions are repeated frequently and long enough, they will ultimately be right. The wolf in the fable did finally appear. and wrought great damage. To this extent, the concern of investors is justified. But the risk of the economic wolf appearing soon has been reduced—not increased—by recent price developments. While these developments have added to near-term uncertainties, they have improved the longer-term outlook for investors.

Commodity Price Decline Healthy

It was inevitable that a substantial decline in farm commodity prices should invite comparisons with 1920-1921 when the World War I price boom "busted." But most of the troubles leading to that fiasco do not now appear to exist. Gray markets for many types of steel. automobiles, agricultural equipment, building materials and chemicals; firm prices for copper, lead, textiles and many other products of industry; local shortages of petroleum, natural gas and electricity; all these contrast with the surpluses that accentuated past business readjustments. In common with investors, businessmen generally have been cautious. They are avoiding many of the mistakes of the past, such as building up excessive inventories at high prices. The world's need for our goods continues great and ways are being found to finance large exports. Earnings and dividends have not been appraised so conservatively by investors in any peacetime year in recent decades!

The prolonged and extreme rise in farm commodity prices has been like a cancer in our economic body. There were only two possible outcomes. Either the ailment would be cured while the economy was still strong and could stand the strain, or it would continue until damage was done beyond repair. We feel confident that if the farm commodity price adjustment is completed now, (1) it will do more good than harm, (2) it will remove one of the most serious obstacles to real prosperity and (3) the economy is strong enough to absorb the shock. In one sense, the concern expressed over recent commodity price developments may be compared with the nervousness a parent would feel if a child were undergoing an operation — even

(Continued on page 40)

INDEX

Articles and News **Page**

Regular Features

Published Twice Weekly

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Patent Office

WILLIAM B. DANA COMPANY, Publisher
25 Park Place, New York 8, N. Y.
REctor 2-9570 to 9576

HERBERT D. SEIBERT, Editor & Publisher
WILLIAM DANA SEIBERT, President
WILLIAM D. RIGGS, Business Manager

Thursday, March 18, 1948

Every Thursday (general news and advertising issue) and every Monday (complete statistical issue — market quotation records, corporation news, bank clearings, state and city news, etc.).

Other Offices: 135 S. La Salle St., Chicago 3, Ill. (Telephone: State 0613); 1 Drapers' Gardens, London, E. C., England, c/o Edwards & Smith.

Reentered as second-class matter February 25, 1942, at the post office at New York, N. Y., under the Act of March 8, 1879.

Subscription Rates

Subscriptions in United States, U. S. Possessions, Territories and Members of Pan-American Union, $35.00 per year; in Dominion of Canada, $38.00 per year. Other Countries, $42.00 per year.

Other Publications

Bank and Quotation Record—Monthly, $25.00 per year. (Foreign postage extra.)

Monthly Earnings Record — Monthly, $25.00 per year. (Foreign postage extra.)

Note—On account of the fluctuations in the rate of exchange, remittances for foreign subscriptions and advertisements must be made in New York funds.

Collating the Problems of The Securities Industry

Need for united front in securities industry. Speech of NYSD President examined. Suggested leadership of NASD vetoed. Its interests adverse. True leadership should find its nucleus in a voluntary association. Tests for representation outlined. NASD fails to meet these tests. First duties of representative body to seek relief from SEC and NASD encroachments.

At a recent dinner of the New York Security Dealers Association, Philip L. Carret, its President, addressing that group, said: "It may be that the most urgent need of our business is a united front for the study of our many pressing problems. We have the foundation of such unity in the National Association of Securities Dealers, the quasi-official body to which all of us belong."

Mr. Carret chose an unfortunate "foundation."

As we hope to demonstrate, the background of the NASD literally teems with a record proving that its choice as a nucleus of unity in representing the securities industry would be utter folly.

Mr. Carret started his address with this significant observation: "While most businesses enjoyed boom conditions in 1947, brokers-dealers in all branches of the securities business have had to operate in falling or stagnant markets, bearing high operating costs in the face of meager profit margins."

Memory comes to serve us and, as we see it, to plague the NASD's attempts at price control. How long is it since, by a so-called "interpretation," the NASD forced upon an unwilling industry "the 5% spread yardstick"! Oh, yes, we know this was ultimately approved by the Securities and Exchange Commission but it deceived no one because the correlated aims of these policemen operating out of the same precinct are generally understood.

The penal provision of that interpretation was so brazen that even the SEC would not go along with it. It will be recalled that, where spreads exceeded 5%, NASD members were put on the defensive and ordered to make an explanation. In its decision approving the by-passing of NASD membership and declaring the "5% spread philosophy" an interpretation rather than a rule, the Commission said, in effect, that from the mere size of a spread in and of itself no conclusions of impropriety can or may be drawn and that the duty of proving any wrongdoing, that is, the burden of proof, is upon the NASD when it asserts such wrongdoing has taken place.

The NASD is in no small way responsible for the high operating costs and the meager profit margins that Mr. Carret laments. The assessments that it levies, its inquisitorial examination and questionnaires, and its profit control regulations constitute no small part of the cost and headache of operations.

Unity in the securities industry, presenting a united front, must be the product of wholly voluntary action and can never succeed when the facade has its basis in compulsion.

The NASD is the statutory body organized pursuant to the Maloney Amendment of the Securities Act of 1934. Although it has been conveniently claimed that membership in this group is voluntary, it is, nevertheless, generally known and appreciated that joining up is a bread-and-butter compulsion by reason of the fact that certain financial benefits accrue to the members which may not be participated in by non-member dealer-brokers and underwriters, the outsiders being treated from the monetary point of view just as if they were individual members of the investing public.

This monopolistic and smelly statutory arrangement, in and of itself, places the mark of Cain upon the NASD and completely disqualifies it from being representative of the securities industry.

We will not go at length into the activities of the Busi-

(Continued on page 39)

Controlling the Marshall Plan

By MELCHIOR PALYI
Professor, University of Wisconsin

Dr. Palyi points out basic ideas of ERP, and analyzes its defects and shortcomings. Sees gap in Europe's international balances widening, and claims it will be accentuated by using dollars for permanent investment. Cites Britain's position as example and holds promoting European production will not eliminate deficit in balance of payments. Says Europeans must work out own problems and we should not substitute our brains and responsibility for theirs.

The basic idea of the ERP (Marshall Plan) has a natural appeal to American imagination. Roughly, the idea is this:

Europe imports a great deal more than it exports. It lacks the means to reduce this import surplus, to become financially self-sustaining. Therefore, let us step in in a big way and provide the Sixteen Nations (including trizonal Germany) with the necessary food, raw materials, and equipment to build up their productive capacities. In 4¼ years, they are supposed to become independent of American aid. At any rate, their dependence should be reduced by that time to the point where the excess of imports, if any, can be financed on purely commercial terms.

Dr. Melchior Palyi

That sounds simple and reasonable. This country, too, grew by importing capital that has been put to such good use as to eliminate the need for further capital imports and to repay the credits as well as to raise us to a creditor status.

Of course, the foreign capital this country has absorbed in the past has been yielding as a rule very substantial profits to the investor. At present, there is no prospect even of repayment. Also, there is a significant difference in quantities.

The largest amount of net long-term capital outflow this country has seen in any single year of the buoyant inter-war period was less than $1.5 billion in credits (and immigrants' remittances) in 1928. Now, we are planning on a first Marshall Plan installment of $4 or $5 billion, to which over a billion in private charities and remittances should be added, plus almost a billion to feed the Germans and Austrians, $570 million to China, $1 to $1½ billion by way of Bretton Woods institutions, an extra $400 million or so to Greece and Turkey, probably a Marshall Plan for Latin America, etc., all in one year's time. Sooner or later, Europe will need additional loans under the title of currency stabilization and for rearmament.

A few years hence, at this rate, we may have trebled the nearly $20 billion already sunk in post-war reconstruction, reorganization, relief, rehabilitation, modernization, and what have you, not counting the $3 billion or more which other countries, Canada in particular, have thrown in the same basket.

The Paradox of Production

Coming back to the ERP: Will Europe be brought back on its financial feet by being refed, refurbished and reequipped for four more years? The objective is to be attained by "strings attached." The strings consist in the specification of the uses to which the dollars are to be put. That is the implication of the Sixteen Nations' economic program drawn up in Paris last September, and of all Marshall-planning since. Billions of dollars will be at Europe's disposal to import specified commodities and to carry out projects of a productive nature. According to the State Department, "In the main, European production will supply the capital equipment needed for" the expansion of farm and coal output, the development of oil refining and steel capacity, the growth of transport facilities, etc. American assistance will gear production to permit in due course the cutting down of Europe's essential imports—unessentials are to be kept out by the prevailing straitjackets—and to increase its exports.

But production progress does not necessarily mean financial recovery. Since the war, European nations have been straining their resources to promote "heavy" construction. So much so that they have enhanced their shortage problems, created paralyzing bottlenecks, discouraged incentives, bureaucraticized their economies, and distorted their foreign trade patterns, price and wage structures. The funds they received from abroad were not just spent on "luxuries." (Incidentally, even tobacco and films may have a

(Continued on page 32)

Marshall Plan—A Snare and Delusion

By WILLIAM A. ROBERTSON
Member of the New York Bar

Mr. Robertson attacks Marshall Plan as speculative as well as useless. Says it will result in permanent commitment of U. S., and cites Britain's experience in Egypt and other countries as an illustration that financial aid given them does not win confidence of foreign nations. Sees severe administrative difficulties in implementing plan, and predicts ERP will fail to prove a tonic and resuscitator of Old World.

President Truman's message of Dec. 19th last was an astonishing communication. It asks that there be handed to 16 foreign countries a sum so colossal that most of us can scarcely estimate what it means—and this, too, in the face of a national debt so great as to be alarming, with taxation so high as to be staggering. The proposal raises a whole flock of perplexing questions. This article touches upon only one or two of them.

A Study in Receivership

The Marshall Plan contemplates that the assistance to be given to Europe is to be employed by the 16 favored nations in setting themselves upon their feet for purposes of general trade and commerce. When this is accomplished, they are to be left to their own devices; world trade is to resume as in the past; our own foreign commerce is to revive and expand. This is idealistic in the extreme. The President views these 16 nations as concerns in bankruptcy, or at least as so nearly insolvent that without external assistance they can not hold their own. The plan may be likened, perhaps, to a widely extended receivership, or series of receiverships — the United States occupying a position somewhat akin to that of receiver, and also to that of a banker who is supplying the funds requisite to restore the concerns in receivership to solvency and success. Viewed in this light, the whole picture becomes a study in receiverships on a very large scale.

Difficulties Inherent in so Speculative a Program

The notion that by an advance of capital to those 16 countries of Europe they may be set up in business, seems to have captured the imagination of many persons. They have jumped to an unwarranted conclusion, thinking that there is a sound analogy between aiding an insolvent American corporation and aiding an insolvent European state. Such is not the case; the differences are great and intricate. First, there is the overshadowing question of the proper machinery of administration for so vast an outlay of public money. How will it be possible to supervise so large and widely extended an employment of capital in foreign lands, among countries inhabited by people who do not love us, and who (with one or two exceptions) do not speak our language, who are naturally and properly jealous of any outside or alien control, and whose whole attitude toward us since the close of World War I, has been that of a hardly veiled dislike for a "nation of shopkeepers"?

Administration a Two-Fold Program

This question of administration wears a two-fold aspect. First, as it affects our own politics; secondly, as it relates to the successful employment of our money and influence in each one of the 16 countries. The first has already obtruded itself upon thoughtful Americans. The control over so vast a sum of money is an enormous political responsibility, pregnant with ugly possibilities. But this article is concerned only with difficulties arising abroad.

Thorny Questions in Foreign Lands

The making of such extensive loans to 16 debtors, each one of whom is a sovereign in itself, is very different from making loans to private concerns in regular lines of business here in America. The ramifications of foreign money-lending are numerous, intricate, and often very surprising, reaching far beyond anything the creditor ever contemplated. We shall explain this a little later, but there are two questions of the utmost importance which precede it.

Questions That Must Not Be Overlooked

When seeking for some chart to guide us over a sea beset with such unknown reefs and conflicting currents, two things should be kept steadily before our eyes: (1) When can we terminate the whole business of debtor and creditor, and resume our normal position? (2) How are the people whom we are seeking to benefit likely to regard us? We do not want to find ourselves cursed as unconscionable screws, or viewed as heartless usurers. Neither do we want to find ourselves in the position of the man who had caught the bear by the tail, and then discovered to his consternation, that he could not relinquish his hold without imminent personal danger.

Three Lessons From History

In an attempt to estimate the possibilities of the Marshall Plan, history may be called in to assist us in three different ways: First, there is one chapter in the past which gives us a full and instructive story of an attempt by a very intelligent and enlightened nation to supervise, over a considerable period of time, the financial affairs of another people who were in much the same condition as the 16 countries in question. This story is to be gathered from a study of the relations between England and Egypt for more than a generation. Secondly, we have the lesson of our own loans to Germany after World War I. Thirdly, we may gather no small amount of useful information from what has happened during the reorganization, under receivers, of many of our great American railroads.

These considerations may lead us to conclude that the Marshall Plan contains no element of sound business sense, but leads to bitterness and misfortune for all concerned in it. We turn to one of the historical examples already mentioned.

England and Her "Occupation" of Egypt

When the Suez Canal was first projected, the English would have none of it. But after it demonstrated its immense success and importance, the Administration of Mr. Disraeli hastened, in 1875, to purchase the large block of canal stock which Ismail Pasha, the spendthrift Khedive of Egypt, was anxious to sell. This was the beginning of Great Britain's connection with Egyptian affairs. It began and continued against the decided wish and intention of nearly every English statesman of both parties; it lasted more than a quarter of a century. Greatly abridged, the story is as follows:

Loans by British and French Bankers

After 1875, French and English capital became more and more interested in Egypt, whose affairs were very badly managed. When Ismail Pasha became Khedive in 1863, there began an orgy of spending; money was used for railroads, canals, harbors, lighthouses, palaces, etc. Soon there was urgent demand by foreign bondholders that their governments intervene in some manner, and guard both themselves and Egypt against her own folly. A Commission of Inquiry reported that bankruptcy was inevitable. Other commissions were appointed; soon Egypt dared not call her financial soul her own. Foreign financial experts took charge of her affairs; foreign clerks and officeholders abounded at Cairo and Alexandria, and grew apace. Presently one Arabi Bey headed a party of intense opposition to foreigners. In 1882 a fleet of British ironclads bombarded the forts at Alexandria, and an English army won a victory on land. They professed to be supporting the authority of the Khedive against rebels.

Against every wish and intention of so sincere, high-minded, and liberal a Prime Minister as Mr. Gladstone, whose views were in harmony with those of nearly every other public man, nevertheless, England reluctantly waged war in fact, though not in name. The events of the summer of 1882 cost England the friendship and confidence of France and others for the next quarter of a century. She was the real ruler of Egypt, though she protested that she was only "occupying" the country till such time as she could safely withdraw altogether. Lord Salisbury, writing to Lord Lyons, said: "We shall be safer and more powerful as wire-pullers than as ostensible rulers."

Material Prosperity Did Not Win for Her the Confidence of Egyptians

But in spite of the immense material progress and advancement in wealth accomplished under the very able administration of England's representative in Egypt, Sir Evelyn Baring (Lord Cromer), English rule was disliked, and England herself was not popular. She was simply

(Continued on page 27)

The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

A fractional decrease in total industrial production was evident last week stemming from a slight recession in manufacturing activity. Despite the small decline, the level of output continues somewhat above that of the like week of 1947.

As in past weeks employment and payrolls held steady and high and many manufacturers were blessed with a sufficient volume of orders to insure high production for several months. An encouraging factor in higher output, it was noted, was the generally adequate supply of raw materials and skilled labor to meet current needs.

In the rubber industry some large rubber manufacturing concerns reduced tire and tube production schedules by about 25%, the decrease it was understood, was partly seasonal. However, output of other rubber products increased slightly.

Lumber production in the week declined nearly 3% to 186,793,000 from 192,423,000 board feet, while lumber shipments increased 2% and new orders by nearly 10%.

A substantial decline in building activity during the week reduced civil engineering construction volume by 48%. Total construction, it was noted, amounted to $95,996,000 and was 7% below that of the corresponding week a year ago.

* * *

Consumers generally responded favorably to the increased number of promotional sales and advertisements of Spring merchandise. Interest in Easter apparel also improved somewhat. Retail volume was moderately above the levels of both the previous week and the similar week of last year. Shoppers continued to resist high-priced goods and stressed quality.

The dollar volume of wholesale trade declined slightly during the period ended on Wednesday of last week and order volume was generally somewhat above the level of the corresponding week a year ago. Many retailers continued to avoid long-term commitments and collections in some lines showed signs of slowing up.

* * *

On Monday of the current week a strike involving 400 000 soft coal miners was called over the question of pensions. Approximately 360,000 bituminous coal miners of the country are idle as a result of the dispute.

The strike was not entirely unforeseen, since John L. Lewis, President of the United Mine Workers Union, at a press conference on Friday, last, gave some inkling of the stoppage when he made the statement that the coal operators had "dishonored" their contract and that the agreement provided only that the coal diggers shall work as long as they were "able and willing."

* * *

The combined force of higher wage rates and the great demand from consumers, as well as from business, continued to push the general price level of commodities steadily higher, states the March issue of the "Business Bulletin," published by La Salle Extension University of Chicago. The most general price indicator, that prepared by the United States Bureau of Labor Statistics, went up to a peak in the middle of January at 18% higher than it was a year previous, the "Bulletin" notes. It was within 2% of the postwar peak after World War I in May, 1920. Food prices were higher than at that high point but industrial prices have not risen quite so much.

The decline during the period since January amounted to less than 3% in this general index, although it has been much greater in many individual commodities. The drop in grains amounted to over 25%, and in a few items it was even greater. Some of the decline has been a natural reaction from the rapid rises of recent months, while part of it has been due to improved supply and demand relationships. Price adjustments of this kind, the paper adds, can help bring the economic system into better balance and help stabilize prosperity.

* * *

Personal incomes were maintained at a record-breaking rate of $210,800,000,000 for the month of January compared with the previous high established in December, 1947 of $210,400,000,000.

For January the level was 11% above the like period of 1947 and 7% higher than the 1947 average of $196,800,000,000, the Commerce Department revealed.

Higher farm income, new veterans' bonus payments—particularly in New York and a gain in unemployment insurance payments accounted for the January increase over the December annual rate.

STEEL OUTPUT SCHEDULED AT HIGHEST RATE SINCE APRIL 2, 1945 WEEK

If the coal strike is prolonged it will not augur well for the steel industry for within three weeks or so the steel ingot rate will plummet. Some mills have good coal stocks but if the outlook darkens in the next week it will mean sharp cutbacks in schedules to conserve coal and thus prevent a steel shutdown with a bang instead of a gradual reduction that could be stepped up sharply if things looked better, according to "The Iron Age" national metalworking weekly.

As usual the steel industry's present misfortune will be used by John L. Lewis to strengthen his hand at the bargaining table. With a sharp drop in steel output the nation's emotions can be adequately wrought up, the magazine points out, especially at a time when demand is heavy, the international situation is tense and steel production at an all-time rate.

Even with the unusual speed in turning out steel, the industry this week is making little headway in reducing its backlogs. A survey taken by "Iron Age" district editors failed to show any weak points in regular steel demand.

Customers were still pushing for deliveries on most items. The crackup in the top gray steel market has had no effect on regular steel demand or order volume. Last week's decline in demand for gray market steel was still sharply visible this week.

Despite all the talk about the possibility of a drop in steel orders because of the general note of caution, there is no evidence this week that steel will suffer any setback either in the immediate future or over the next many months.

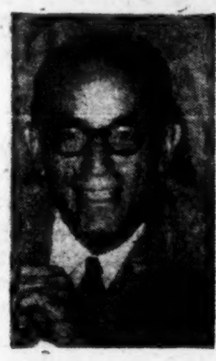
(Continued on page 33)

Observations . . . .

By A. WILFRED MAY

ERP'S PSYCHOLOGICAL DANGERS

Now that the European Recovery Program seems safely deposited in the legislative "bag," the nation's most careful attention should be devoted toward getting the maximum benefit from our billions and avoiding the many pitfalls created by our financial effort. Although the high-powered committees devoted to getting the people behind the Marshall Plan are disbanding, at least their equivalent in brains and vigor should henceforth be devoted to clarifying realistically its immediate and far-reaching implications.



A. Wilfred May

The Soporific Danger

Primarily the danger of a soporific effect from the mere extension of financial help—particularly if it be generous—must be recognized. When the British Loan was arranged not two years ago, soothed by our own Treasury officials' meticulously careful expositions of its "guarantees," we thought we could enjoy at least a five-year breathing spell before adopting any further measures for helping the British. But now, before even half the scheduled period of the credit has passed, Britannia as well as the entire world political situation have fallen "on the rocks." The reasons for this abortive result may be highly controversial, but there should be little doubt that less complacency on both sides of the Atlantic would have at least postponed it. But of far greater importance, as the London "Economist" and many other non-political British observers have been pointing out, the very existence of the Loan "drug" obscured the urgency for self-help as well as for many missing steps of a broad constructive nature. The placing of Britain's and other countries' currencies on some kind of sound or at least realistic basis has been only one of many such needed measures that have been neglected.

Some of the attitudes and policies which England must realistically embrace on her home front have been clearly set forth in the "Economist" and freely quoted in this column of three weeks ago. Subsequently the dire exigencies have been most forthrightly stated by Sir Stafford Cripps. **These truths are not one iota less urgent now merely because the dollar pipeline is being reopened for business.**

And we ourselves, as time goes, must be careful to resist the Siren Song of those tempting us to continue carelessly an international WPA with the bait of the resulting stimulus to our domestic industrial activity.

In the political sphere, as well as the economic, all possibility must be foreclosed of giving the people a narcotic for glossing over the crying need for consistent action in this climactic world crisis; of letting wishfully-thinking people be satisfied with this *token* in lieu of a concrete and vigorous foreign policy which would protect our legitimate interests and bring about a pattern of political stability. We must not, like a father who thinks he has ducked his real parental responsibilities to his son by the mere granting of a liberal spending allowance, imagine that our dispensation of Marshall Plan largesse excuses us one iota from the vast economic and political duties which it is our burning duty to discharge.

For example, we must not be tempted to bask in the nostalgic fiction that we are still fighting Hitler and Goebbels, when Hitler is long under the earth of Berlin and the Stalin-Molotov team is surging all over Berlin and the balance of Europe. The assumption that our financial gesture will hold Italy or Scandinavia in the democratic line, in lieu of a definitive test of diplomatic strength directly with Moscow, represents a danger that may be catastrophic.

Production, Not Social Service, the Need

Likewise in the economic sphere, we must now call quits on the ideological dialectics, and at least from here on concentrate on the need for production and more production, irrespective of whether or not our debtors' economies are being administered by capitalists or socialists. But at the same time let not currency management, industry nationalization and other key policies be set according to ideological dreams in lieu of the concrete aim of self-support through efficient production distributed competitively on the free market place.

Despite the fact that the pound may continue to be held at its overvalued price of $4, let us at least realize that such rigging, entailing an overpricing of Britain's exports and underpaying for her imports, is made possible through our dollar-exchange subsidies, and not through the real valuation of the market place.

Let not our dollar-subsidization gloss over the fact that price fixing policies, as a gesture against "inflation," have cut down agricultural and industrial production throughout Western Europe—that production which is their only means of securing new dollar exchange or of making repayments for their existing borrowing thereof.

Let not dollar-subsidization obscure the fact that the economic

(Continued on page 39)

W. E. Hutton Installs Calif. Trading Wire

W. E. Hutton & Co., 14 Wall Street, New York City, members of the New York Stock Exchange and other leading national exchanges, announce the installation of a direct trading wire to California.

With Ed. E. Mathews Co.

(Special to THE FINANCIAL CHRONICLE)

BURLINGTON, VT.—Atwood I. Hardin is now with Edward E. Mathews Co., 155 Cliff Street.

More Risk Capital as Incentive for Sound Industrial Future

By GWILYM A. PRICE*

President, Westinghouse Electric Corporation

Holding industry's willingness to proceed with postwar expansion prevented depression after V-J Day, Mr. Price sees that program threatened by failure of new venture capital investment. Says sources of venture capital are drying up, and hints postwar expansion is nearing end. Stresses declining "wage rate" paid to capital, and urges action be taken to boost it by removing double taxation of dividends and other taxes devised for annihilation of capital.

Everyone can easily remember the nearly universal predictions, before and immediately following V-J Day, that business would take a nosedive and that unemployment would skyrocket. Some of the forecasters thought there might be a brief boom in the consumer industries. But certainly there were few predictions of what actually happened — a steadily and rapidly rising national income, production totals that were restricted only by material shortages and labor difficulties, and an increase in employment halted simply by the fact that practically everyone who wanted a job found one.

Gwilym A. Price

Let us skip over the question of whether everything connected with this boom is healthy or to our liking. The real point to be made here is that we have had a boom instead of the promised bust; that the promised collapse did not occur, and that it still has not come to pass.

Wisdom comes easier after than before the fact, and the reasons why we have 60 million employed and a national income well over $200 billion are now common knowledge. Or are they?

Yes, in large part, they are well-known and generally recognized. Even a freshman in economics can tell you that there was a huge backlog of demand for everything that 140 million consumers can wear and use and live in, coupled with a large volume of wartime savings and a bloated money supply, and topped by overseas appeals for American products.

This covers all but one major factor, and that is my subject today. It is a subject that has had too little attention, even though it was the final and essential ingredient in substituting boom for bust. It made the decisive difference between full employment, with all its benefits, and the throwing out of work of several million men and women.

For the first time since 1929, American business at the end of the war had sufficient liquid resources, and sufficient borrowing power, that it could take the risk of large-scale building of plants and buying of equipment. For the first time since 1929, owners and managers could see markets sufficiently broad and deep to justify building and equipping plants improving processes and products, expanding production and distribution, plowing back profits and incurring new obligations. In the best American tradition, business was willing to take a chance. It took that chance—on a colossal scale — with its own funds and with vast borrowings.

It was industry's willingness to undertake and proceed with this tremendous program of expansion and modernization that, as I say, made the decisive difference between what we feared would happen and what actually has happened. It was a decision as nearly unanimous as anything of the kind can be; but it was not made by a single man, or a small group of men, sitting at a central spot and drawing up all-over plans for a nation's guidance. On the contrary, it was many separate decisions, made independently by many thousands of business men, in offices and board rooms throughout the country, which added up to a universal determination that American industry — and, as a result, the entire American economy — should go forward.

It was a decision that boosted the national production curve up and up, that kept millions in jobs and off relief rolls. Logically, that earlier decision has made necessary another—one which must be made and acted upon now—a decision whether we are to continue on this path that promises most in the way of sound and stable prosperity.

A Single Threat of Recession

Today, the greatest single threat of recession is due to industry's doubts as to its ability to proceed with the modernization and enlargement of its production facilities. That expansion process has gone a long way since 1945; but it must continue well into the future before industry can meet all the latent and potential demands of our own people and, in addition, some part of the world's demands for what American industry can best produce. I can readily agree with President Truman's statement that $50 billion of additional expenditure by industry during the next few years is desirable. But his simultaneous suggestion, that the excess profits tax be restored, leads me to believe that if the President were a farmer again he would be expecting to get milk and beefsteak from the same cow.

This expansion process will continue if present doubts and hesitations can be overcome. These doubts are based on a combination of certainties and uncertainties. Obvious uncertainties are as to prices and, of course, their main ingredient, wages. These uncertainties have to do not only with what industry must pay for its own expansion, but also the prices at which the products of such expanded facilities must be sold to markets increasingly reluctant to pay more. Time does

(Continued on page 35)

*An address by Mr. Price at Luncheon of the Cleveland Chamber of Commerce, Cleveland, O., March 9, 1948.

Market Research in Securities

By WILLIAM K. BECKERS*

Partner, Spencer Trask & Co.
Vice-Chairman, Board of Governors, New York Stock Exchange

Prominent investment banker points out dearth of risk capital and its adverse effect on corporate financial structure. Says expansion plans of some concerns have been curbed because equity securities cannot be sold, and explains function of investment bankers in investigating status of securities markets as well as corporations seeking capital. Urges corporations cooperate with bankers in furnishing information to investors.

Some years ago our investment banking firm was engaged to make a survey of hearing aids, in the course of which I got on the mailing list of a number of hearing aid companies. The result has been that hardly a day goes by that I do not receive some advertising literature about hearing aids, so that when the elevator man in our apartment building takes me upstairs he talks loud, and I am sure is convinced that only false pride keeps me from wearing an earphone.

William K. Beckers

Recently I received what seemed to be a personal letter from Commander MacDonald, President of Zenith Radio, in which he said, "Dear Mr. Beckers: The new Zenith 75 single unit hearing aid that thousands have been waiting for is now available—but I refuse to sell it. I refuse to sell it because I do not believe a hearing aid should be sold. It should be bought." Well, in view of Commander MacDonald's splendid record as a salesman, we may be sure that he does not mean literally that sales effort is not necessary and important, in any business field. But it was not so many years ago that an important body of opinion, both public and Washington felt that sales effort should be reduced and even eliminated in the field of securities, and that the operations of the financial community should be confined very largely and even entirely to the mechanical execution of the public's orders. I refer to the early 1930s when the financial community and the nation at large were suffering woeful results of the many excesses (not confined to Wall Street) which had taken place during the booming twenties. The feeling of the public and of the SEC was that there had been too much high pressure salesmanship in the selling of securities, and the feeling was unquestionably justified, at least in substantial part. There had been much aggressive and not sufficiently selective distribution of new securities. And part of the hectic public speculation in already issued securities had been engendered by the excited customers' man who used to call you on the telephone with the latest market tip.

But is the proper remedy for such a condition the removal of sales effort from the securities picture? Let us look first at the thought that the public should buy securities solely of its own volition. Right off the bat we remember that a great many of the foolish purchases of 1929 were made of the customer's own volition—the result of a casual dinner-table conversation with a neighbor, or a chance remark from a business friend. Secondly, we know an important fact established in another field—that the great and admirable insurance protection in the United States would never have taken place if the insurance companies had depended on the volition of the public to come in and ask to have their lives insured. And thirdly, when we were talking a moment ago about conditions in 1929, we admitted that much of the selling in new securities was very aggressive, but we also said that it was in many cases not the degree of aggressiveness that did the harm but the injudicious selection of what was to be sold. Loans to foreign countries for building boulevards, for example, as compared to equity capital for the chemical industry.

Sales Efforts Important and Constructive

No—it has already been well established among other things, by the record of the securities business in the distribution of war bonds, that sales effort in the securities business is an important and constructive activity in our economy. Indeed it has recently become clear that in the next few years the sale of equity securities may be *the* most important and indispensable single function in our economy. For the country finds itself confronted with a disturbing lack of risk capital—that is money that will go into equity or stock securities as distinguished from debt securities. This lack of equity capital was the topic chosen by Senator Millikin, Chairman of the Finance Committee of the Senate, in the principal address of the evening at the annual Economic Club Dinner a week ago last night.

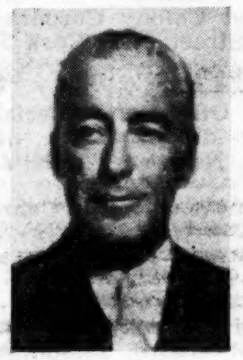
Since the end of the war we have seen an enormous amount of corporation capital secured from debt financing, in some cases through the public sale of bonds, but more often through borrowing from banks or insurance companies at attractive low interest rates. Hundreds of millions of dollars of borrowed money has even gone into bricks and mortar, as well as into its more normal use—the supplying of working capital. But no industrial economy can, for very long, continue with a capital structure of overhanging debt, and the time has already come when the necessary base of ownership capital must be reestablished. But since the market suddenly broke on the day after Labor Day in September 1946, largely under the weight of new security offerings, the country has gradually awakened to

(Continued on page 42)

*An address by Mr. Beckers before the Chemical Market Research Association New York City, March 12, 1948.

E. F. Hutton Proposes Organization To Defend Constitutional Rights

Mr. E. F. Hutton of Westbury, L. I., Special Partner in E. F. Hutton & Co., members of the New York Stock Exchange, has proposed an organization in the form of a "Foundation," and in support of the movement has written personal letters to 300 executives of leading business corporations urging them to participate in it to fight and watch over the people's rights under our constitutional government.



Edward F. Hutton

The text of the proposed preamble and platform of the organization, as suggested by Mr. Hutton, follows:

PREAMBLE

To perpetuate the provisions of the Constitution of these United States; to protect and defend that Constitution against the assault of all and sundry, from within and without this nation; to disseminate to the peoples of the world an understanding of that Constitution; to broaden and deepen the citizens' devotion to Constitutional Government; to defy government by men and restore government by law; to re-establish the sovereignty of the several States; I, as an individual citizen of this Republic do hereby, in the sight of God and the embrace of Liberty, pledge myself to the precepts and principles of _________________________*Foundation, Inc.* and in sacred honor will subscribe to its purposes as hereinafter set forth:

PLATFORM

________________________*Foundation*

With faith in God and determination to preserve the fundamental liberties of this Republic, we demand:

(1) Government by law—not by dictum.
(2) Adherence to the supreme law of the land—the Constitution of the United States and its Bill of Rights.
(3) Reclamation by the Congress of the powers constitutionally vested therein, and strict accountability to the people for the performance of its duties.
(4) Renunciation of bureaucracy with its administrative laws and quasi judiciary, and resumption of government under the organic laws enacted by the governed.
(5) Restoration of state rights.
(6) Re-establishment of the free enterprise system, and each and every the duties and privileges it imposes.
(7) Reverence of the Constitution, and amendment thereof only as is therein prescribed.
(8) We join with Benjamin Hill, of Georgia: "The Constitution is my only client; its preservation is the only fee I ask."
(9) We solemnly dedicate ourselves to do whatsoever in honor, in dignity, and in valor may be accomplished; to make each and every American realize the sources of all freedom, the sanctity of his home, the dignity of his way of life, and the opportunity of his children rests in the Constitution.

The text of Mr. Hutton's letter to business leaders requesting them to join him in the project and in which he epitomized the arguments set forth in a recent newspaper broadside, entitled "Legalized Stealing, the Whittling Away of Rights of 'We the People,' Without Public Protest" is as follows:

Henry Ford, II
Ford Motor Co.
Detroit, Mich.
Dear Henry:

The enclosed article, "Legalized Stealing," may be of interest to you. Courage developed America—not lack of it. Courageous men can save our country—not the chicken-hearted and weaklings. I am not attempting to direct your actions. It is for you to decide. The pillars of government are crumbling. The future liberties of our people are endangered. The readings of political thermometers do not register truth.

The morals of our country are low, pollution of class relationship; the trends are sweeping us toward liquidation of personal freedom; principles abandoned, the results of warped judgment directing policies from Washington; expediency substituted for truth; leaders of our labor justifying any action that gratifies their lust for power. We are becoming accustomed to dishonesty in public places; sacrificing fundamental legal principles for political opportunism is repudiating civilization; clergymen preaching socialism—expropriation of property without consent in the name of "common good"; in schools and colleges, teachers advocating collectivism, denying the sanctity and dignity of individuals. Legalized stealing seems to be the order of the day, all of which are the most depraved and dangerous trends known to man.

Today we need a group of honorable men to project the idea that we should have an organization to watch over the people's rights under Constitutional government. To me, it seems the only alternative left for "We, the people." Weakness cannot cooperate with anything—only strength can cooperate. The active are usurping the rights of the inactive. "When bad men combine, the good must unite—else they will fall, one by one—an unpitied sacrifice in an unequal struggle." We are witnessing this beyond our shores.

You may have some thoughts respecting the following suggestion to sell the consuming public 50 million shares of the ______________________________ *Foundation*, at $1.00 each up to 400 shares for $400. No corporation or society as such could be its member—only individuals. This eliminates the so-called concentrated wealth. Such a movement would bring to the attention of the consuming public what Liberty and the Bill of Rights means to them.

According to the polls, there is only one person in five who has ever heard of the Bill of Rights. This product, our Bill of Rights, was given to us on a platter by our two-fisted, God-fearing forefathers—we take it for granted. Today it is on the auction block! I believe there are millions of people in these United States who would welcome such a movement to protect the liberties which are fast disappearing in our great country. Our Bill of Rights is the greatest product and of more value than all the products being sold today by industry. If and when this product is lost, all the nationally advertised products based on the free enterprise system will fall—America is finished!

This is the product which must be resold to the consuming public and it must be kept sold! Is it not worth selling? Have we longer than six months in which to do this? Think it through! The country needs courageous men—not weaklings—we are not playing for marbles!

"Must Have Risk Capital or Government Ownership of Industry!"

By RICHARD W. COURTS*
Partner, Courts & Co., Atlanta, Ga.

Speaking for investment Bankers Association, Southern investment banker stresses difficulties in obtaining risk capital for industry because of present high income and capital gains taxes. Pleads for immediate 50% maximum limit on individual income tax rates, and points out lack of risk capital is as vital concern to working men as to other classes. Says it is time to get alarmed because of low prices of investment stocks, and concludes unless we have more risk capital we will have government ownership of American industry.

I am appearing before this Committee by your courtesy and at the request of the Chairman of the Federal Taxation Committee of the Investment Bankers Association. My firm, Courts & Co., with 20 offices in the Southeast, is engaged primarily in underwriting and distributing securities. It is our job to find capital particularly risk capital to start new business and to expand or rehabilitate existing business. By risk capital I mean capital that represents a share in the ownership of the business subject to the hazards of the business. Such capital is represented primarily by common stocks. Risk capital on reasonable terms is no longer available for small business and doubtful for large business. We know business concerns in our part of the country that need risk capital—we are not approaching them because it cannot be supplied. Enterprising men wishing to start new businesses, men with small established businesses come to us and we can offer little encouragement. The demand for risk capital has grown more rapidly than the savings of people. With this great excess of demand, even capital that exists is not only timid but has no incentive under present tax laws. This means that in spite of present highly profitable operations resulting from unprecedented demand for necessities, there is no confidence in the minds of business men and investors. It follows that present high employment and currently high tax collections are not secure. You gentlemen are in a difficult position—you must continue to provide means of securing unprecedented revenues for the Government Treasury. The task is simplified if the government drastically cuts expenses, but above all business from whom you collect must be maintained in sound and profitable condition. The latter can be accomplished by changes in the tax structure and rates that will put risk capital into industry and bring increased revenues to the Treasury.

Richard W. Courts

The critical shortage of risk capital is borne out by the fact that common stocks of sound companies are selling today at less than book values, in some cases at or close to net quick assets, attaching no value whatsoever to physical properties. The entire capitalizations of some companies are priced in the public market at only two to five times one year's earnings. A list of some such companies is given in the accompanying table.

The day-to-day trading in common stocks provides the market place for new issues of risk securities to supply new capital to industry. The size of that market governs its ability to absorb new issues. The principal public market place for risk securities is the New York Stock Exchange. For the past 10 years the average annual volume of shares traded on that Exchange was less than the shares traded in the year 1901, 61% of 1932, the worst depression year of all history and 60% of the so-called normal year 1926. In 1901 there were less than 70 million shares listed on the Exchange; today there are over 1,900 million shares listed. Our country has grown rapidly and tremendously. American industry has grown ever more. It is called on to supply not only our own abnormal requirements but a substantial part of the requirements for rehabilitating a major portion of the World. We are attempting to finance this great American industry of 1948 with a public market the size of 1901. It just can't be done.

Let's examine the disastrous ef-

(Continued on page 34)

*A statement by Mr. Courts before the Senate Finance Committee, Washington, D. C., March 10, 1948.

The Interest Rate Problem

By BEARDSLEY RUML*
Chairman, R. H. Macy & Co., Inc.

Former Federal Reserve official, in a detailed and careful analysis of the problem of long-term interest rates in relation to national debt management and support of government bond prices, lists and answers a variety of questions. Contends there is no "natural rate" of interest and that public authorities are willing and able to keep interest rates on government bonds low, even though full powers of credit control by open market operations may be limited for indefinite period. Concludes good reasons exist for supporting Federal interest rate program and urges cooperation with fiscal authorities.

In these anxious days, taxes, the budget and the debt are matters of grave concern to all of us. There is no practical value in discussing these subjects in terms of unreal economic abstractions. We must recognize that taxes, the budget and the debt, that is to say the fiscal policies of the United States, must be developed in a world that is not at peace and in a world that has not yet been restored to even its old levels of productivity. This disturbing setting provides an unwholesome frame of reference in which fiscal measures must be applied. It also imposes major problems of debt management that must be surmounted in any fiscal proposals that can be considered realistic.

Beardsley Ruml

Just as the high new level of the budget and taxes has raised new and unfamiliar problems, so also the size of the national debt creates a new situation for which we have had little preparation. Much thought and much experience will be needed before we can have a debt policy in which we can have complete confidence.

Problem of Debt Management

The big new questions associated with a national debt of the size that ours has become are those that relate to policies of debt management. A debt of $250 billion has to be managed in one way or another, and decisions have to be made several times a year that are based on more or less explicit objectives.

The possibilities of debt management as a tool of fiscal policy arise first from the sheer size of the debt and second from its complex composition. If the debt were small, the possibilities and necessities of debt management would be negligible. The implications in the size of the debt are obvious, but those in the composition of the debt are generally ignored.

The national debt consists of at least four distinguishable kinds of debt: debt in the hands of private individuals, debt in the hands of savings banks, insurance companies and other institutional investors, debt in the hands of the commercial banks, and debt held by the Federal Reserve Banks, Federal trust funds and other Federal agencies. The National Debt therefore is in no sense a homogeneous global aggregate. Through the application of surplus and through the terms of refunding issues, the retirement of sums from each classification or the transference of debt from one classification to another has consequences on the amount and kind of purchasing power remaining in the hands of the public. Debt management is therefore a correlative of tax policy in the maintenance of high employment at stable price levels.

*An address by Mr. Ruml at General Membership Meeting of the Washington Board of Trade, Washington, D. C., March 16, 1948.

The Interest Rate on Government Bonds

Today, one of the great issues in the management of the public debt is the question of the rate of interest on long-term Government securities. The working out of policies connected with this issue will affect every aspect of American business life for years to come, and therefore it ranks with the other great issues of the day as one on which an informed opinion on the part of business leaders is indispensable.

Before giving any personal views of my own as to what may happen or as to what might be desirable, I want to present some of the major points that must be thought about when we think about long-term interest rates. Then, even if we come to different conclusions, we will at least have covered part of the same ground in our thinking.

It seems to me that there are six principal subjects on which it is necessary to have an opinion if one is going to come to a conclusion as to long-term interest rates. Let me list these six subjects in the form of questions and then I will discuss each of them separately.

First, can there be such a thing as a "natural" long-term interest rate?

Second: what statements have been made by public authorities on the subject; and how important are these statements?

Third: what powers do the authorities have to control the long-term interest rate and what are the limitations on these powers?

Fourth: what purposes are intended to be served by existing policy; and are these long-term or short-term purposes?

Fifth: what objections can be raised to existing policy? and

Sixth: what about the relationship between the interest rate on long-term Federal obligations and that on private securities?

Is There a "Natural" Interest Rate?

Our first question was, "Can there be such a thing as a 'natural' long-term interest rate?"

To begin with, we must have some idea as to what we mean by "natural" and "artificial" as applied to interest rates. Some people seem to feel that in general whatever is "natural" is intrinsically good and that whatever is "artificial" is intrinsically bad. A moment's consideration will show that such a distinction is meaningless. Today we have an "artificial" death rate from typhoid fever. The "natural" death rate would be much higher if we did not take sanitary measures to reduce it. The length of time required to get from New York to Washington is "artificial." The "natural" time required would be much longer and the trip would involve the expenditure of much more energy.

In the economic field, too, there is much that is artificial and that is at the same time generally accepted as desirable. The use of money as a medium of exchange instead of the use of barter is certainly artificial; the power to rediscount paper at the central banks is artificial; the prohibition against paying interest on demand deposits is "against nature," as we have discovered from time to time.

Clearly there is nothing inherently wrong with an institution or a practice merely because it is artificial. In truth, the artificial is the result of mind and muscle and will working on a natural condition with the intention of making some improvement on what otherwise would be the fact.

Let us not then confuse the "artificial" with the "evil" or start our thinking about control of long-term interest rates by calling such controls artificial, which they certainly are, and going on to imply that they are evil which they may or may not be.

Let us recognize that as long as we have a central banking system with powers of control and regulation, just so long will we have an interest rate that is artificial, and as such it is neither good nor evil. A "natural" interest rate could exist only after fundamental changes in our monetary and banking institutions, changes that would have unpredictable consequences in our business, political and international arrangements. Accordingly, I think it is sensible to dismiss the possibility of a "natural" interest rate as unrealistic, and to accept the fact that we will continue to have an artificial interest rate, controlled within limits determined by the purposes and powers of the public agencies that have been created for handling our fiscal, monetary and credit policies.

Statements by Public Authorities

What then are the purposes and powers of the appropriate public agencies which have to do with

(Continued on page 29)

Dealer-Broker Investment Recommendations and Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Appreciation Possibilities—List of securities which appear attractive to Chas. A. Day & Co., Inc., 199 Washington Street, Boston 8, Mass.

Business Pattern Strong — Review of fundamentals reveals inherent vitality and momentum of general business — R. W. Pressprich & Co., 68 William Street, New York 5, N. Y.

Charts — 922 charts in spiral bound book covering 12 complete years, and showing monthly highs, lows, earnings, dividends, capitalizations, and volume on virtually every stock listed on the New York Stock and Curb Exchanges —single copy $10—yearly (six issues) $50—F. W. Stephens, 15 William Street, New York 5, N. Y.

Common Stock Program for Investors—Planned portfolio—G. H. Walker & Co., 1 Wall Street, New York 5, N. Y.

Railroad Developments of the Week—Current developments in the industry—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

* * *

Bendix Aviation Corp.—Memorandum—Stanley Heller & Co., 30 Pine Street, New York 5, N. Y.

Bethlehem Steel Corporation—Investment appraisal—Kalb, Voorhis & Co., 15 Broad Street, New York 5, N. Y.

Black Hills Power & Light Co. —Memorandum in current issue of **"Public Utility Stock Guide"**—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

Central Illinois Public Service Co. — Data — Buckley Brothers 1420 Walnut Street, Philadelphia 2, Pa.

Also available are memoranda on **Portsmouth Steel, Gruen Watch** and **DuMont Laboratories.**

Central Illinois Public Service Co.—Analysis—Doyle, O'Connor & Co., 135 South La Salle Street, Chicago 3, Ill.

Central Illinois Public Service—Study — Goodbody & Co., 115 Broadway, New York 6, N. Y.

Also available is a study on **Detroit Harvester.**

Central Public Utility Corporation — Memorandum on market history and outlook—Brailsford & Co., 208 South La Salle Street, Chicago 4, Ill.

Cosden Petroleum Corporation —Memorandum—A. M. Kidder & Co., 1 Wall Street, New York 5, New York.

Craddock Terry Shoe Corporation—Analysis—Strader, Taylor & Co., Inc., Peoples National Bank Building, Lynchburg, Va.

Detroit Harvester Company — Research item—Goodbody & Co., 115 Broadway, New York 6, N. Y.

Electrol, Inc.—Analysis of manufacturer of hydraulic control equipment for aviation and industrial uses—Seligman, Lubetkin & Co., Inc., 41 Broad Street, New York 4, N. Y.

Also available are analyses of Foundation Co., Wellman Engineering, and Tennessee Products & Chemical.

General Box Company — Card memorandum—Barclay Investment Company, 39 South La Salle Street, Chicago 3, Ill.

Hungerford Plastics — Recent bulletin — First Colony Corporation, 52 Wall Street, New York 5, N. Y.

Kingwood Oil Co. — Special survey—Peter Morgan & Co., 31 Nassau Street, New York 5, N. Y.

Lindsay Light & Chemical Company—Circular—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

National City Bank of New York—Circular—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

New England Public Service Co.—Analysis—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Pathe Industries, Inc. — Illustrated brochure describing in detail activities and operations of company.

Public National Bank & Trust Company of New York—Analysis —C. E. Unterberg & Co., 61 Broadway, New York 6, N. Y.

United Fruit Co.—Memorandum —A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

COMING EVENTS

In Investment Field

March 18, 1948 (Minneapolis, Minn.)
Twin City Bond Traders Club Spring Party at the Nicollet Hotel, Minneapolis.

April 13, 1948 (Chicago, Ill.)
Illinois Securities Dealers Association Annual Meeting and Dinner in the Chicago Room of the Hotel La Salle.

April 19, 1948 (New York City)
Security Traders Association of New York 12th Annual Dinner at the Waldorf-Astoria Hotel.

May 10, 1948 (New York City)
Annual Election New York Stock Exchange.

Nov. 15-18, 1948 (Dallas, Tex.)
National Security Traders Association Convention.

Bernays to Speak

Edward L. Bernays, pioneer in public relations field, will speak on "Public Relations" at the New School for Social Research, 66 West 12th Street, Friday, March 19 at 8:10 p.m.

Mr. Bernays is guest lecturer in the series, "Freedom of the Press at Home and Abroad" given at the New School by Milton D. Stewart, director of research, the President's Committee on Civil Rights.

Baum a Director

CHICAGO, ILL. — Harry A. Baum, a partner in the New York Stock Exchange firm of Wayne Hummer & Co., was elected a director of the La Salle Extension University.

With Sides, Morse & Co.

(Special to THE FINANCIAL CHRONICLE)

SACO, ME.—Laurence H. Staples is with Sides, Morse & Co., Inc., 199 Washington Street, Boston, members of the Boston Stock Exchange.

New Issue

$200,000,000

State of Ohio

2% World War II Compensation Bonds

Dated April 15, 1948. Due semi-annually October 15, 1948—April 15, 1963, as shown below. Principal and interest (October 15, 1948 and semi-annually thereafter) payable at the option of the holder at The National City Bank of New York in New York City, at The Northern Trust Company in Chicago and at The Ohio National Bank in Columbus, Ohio. Coupon Bonds in denomination of $1,000, registerable as to principal only.

Interest Exempt from Federal Income Taxes under Existing Statutes and Decisions

The constitution of the State of Ohio provides that these Bonds and the interest thereon as income shall be exempt from all taxes levied by the State or any taxing district thereof.

Eligible, in our opinion, as legal investments for Savings Banks and Trust Funds in New York, Ohio, Massachusetts, Connecticut and certain other States.

AMOUNTS, MATURITIES AND PRICES

(Accrued interest to be added)

Amounts	Maturities	Prices to Yield	Amounts	Maturities	Prices to Yield	Amounts	Maturities	Yields or Prices
$5,750,000	Oct. 15, 1948	.75%	$6,350,000	Oct. 15, 1953	1.40%	$7,015,000	Oct. 15, 1958	1.80%
5,805,000	Apr. 15, 1949	.85	6,415,000	Apr. 15, 1954	1.50	7,085,000	Apr. 15, 1959	1.85
5,865,000	Oct. 15, 1949	.95	6,480,000	Oct. 15, 1954	1.55	7,155,000	Oct. 15, 1959	1.85
5,925,000	Apr. 15, 1950	1.00	6,545,000	Apr. 15, 1955	1.60	7,230,000	Apr. 15, 1960	1.90
5,980,000	Oct. 15, 1950	1.05	6,610,000	Oct. 15, 1955	1.65	7,300,000	Oct. 15, 1960	1.90
6,040,000	Apr. 15, 1951	1.15	6,675,000	Apr. 15, 1956	1.70	7,375,000	Apr. 15, 1961	1.95
6,100,000	Oct. 15, 1951	1.20	6,740,000	Oct. 15, 1956	1.70	7,450,000	Oct. 15, 1961	1.95
6,165,000	Apr. 15, 1952	1.25	6,810,000	Apr. 15, 1957	1.75	7,525,000	Apr. 15, 1962	100
6,225,000	Oct. 15, 1952	1.30	6,875,000	Oct. 15, 1957	1.75	7,600,000	Oct. 15, 1962	100
6,290,000	Apr. 15, 1953	1.35	6,945,000	Apr. 15, 1958	1.80	7,675,000	Apr. 15, 1963	100

The above Bonds are offered subject to prior sale, for delivery when, as and if issued and received by us and subject to the approval of legality by Messrs. Chapman and Cutler, Chicago, Illinois, and by Messrs. Bricker, Marburger, Evatt and Barton, Columbus, Ohio.

The National City Bank of New York — Bankers Trust Company — The Chase National Bank — First National Bank New York — J. P. Morgan & Co. Incorporated — Guaranty Trust Company of New York — Chemical Bank & Trust Company

Halsey, Stuart & Co. Inc. — The Northern Trust Company — Harris Trust and Savings Bank — Continental Illinois National Bank and Trust Company of Chicago — The First National Bank of Chicago — Bank of America N. T. & S. A.

Harriman Ripley & Co. Incorporated — Blyth & Co., Inc. — Lehman Brothers — The First Boston Corporation — Smith, Barney & Co. — C. J. Devine & Co. INC.

Glore, Forgan & Co. — Goldman, Sachs & Co. — Kidder, Peabody & Co. — Phelps, Fenn & Co. — Union Securities Corporation — Blair & Co., Inc. — Drexel & Co.

Equitable Securities Corporation — Merrill Lynch, Pierce, Fenner & Beane — Paine, Webber, Jackson & Curtis — R. W. Pressprich & Co. — Salomon Bros. & Hutzler — Shields & Company

Braun, Bosworth & Co. Incorporated — McDonald & Co. — The Ohio Company — Stranahan, Harris & Company Incorporated — American Trust Company San Francisco — Barr Brothers & Co. INC. — Estabrook & Co.

Fahey, Clark & Co. — Field, Richards & Co. — First of Michigan Corporation — The First National Bank of Portland, Oregon — Hayden, Miller & Co. — W. E. Hutton & Co. — Mercantile-Commerce Bank and Trust Company

F. S. Moseley & Co. — Otis & Co. (Incorporated) — The Philadelphia National Bank — Provident Savings Bank & Trust Company Cincinnati — Ryan, Sutherland & Co. — Seattle-First National Bank

A. C. Allyn and Company Incorporated — Ball, Burge & Kraus — Bear, Stearns & Co. — Central Republic Company (Incorporated) — Eastman, Dillon & Co. — The First Cleveland Corporation — Hallgarten & Co.

Harris, Hall & Company (Incorporated) — Hemphill, Noyes & Co. — Hornblower & Weeks — Kean, Taylor & Co. — Lee Higginson Corporation — E. H. Rollins & Sons Incorporated — L. F. Rothschild & Co.

Seasongood & Mayer — Sweney, Cartwright & Co. — B. J. Van Ingen & Co. Inc. — Weeden & Co., Inc. — The Weil, Roth & Irving Co. — J. A. White & Company

Adams, McEntee & Co. Incorporated — Bacon, Stevenson & Co. — Breed & Harrison, Inc. — C. F. Childs and Company Incorporated — R. S. Dickson & Company Incorporated — Dominick & Dominick — Eldredge & Co. Incorporated

The Fifth Third Union Trust Company Cincinnati — Geo. B. Gibbons & Company Incorporated — Hayden, Stone & Company — The Illinois Company — Laidlaw & Co. — Merrill, Turben & Co. — W. H. Morton & Co. Incorporated

R. H. Moulton & Company — The National City Bank of Cleveland — Prescott, Hawley, Shepard & Co., Inc. — Roosevelt & Cross Incorporated — Security-First National Bank of Los Angeles — Trust Company of Georgia

Van Lahr, Doll & Isphording, Inc. — Chas. E. Weigold & Co. Incorporated — William Blair & Company — Alex. Brown & Sons — City National Bank and Trust Company Kansas City, Mo. — Commerce Trust Company Kansas City, Mo.

Commerce Union Bank Nashville — Curtiss, House & Co. — Ginther & Company — Graham, Parsons & Co. — The Marine Trust Company of Buffalo — Reynolds & Co. — Schoellkopf, Hutton & Pomeroy, Inc.

Stroud & Company Incorporated — G. H. Walker & Company — Whiting, Weeks & Stubbs — Robert Winthrop & Co. — The Wisconsin Company — Wood, Struthers & Co. — Stern Brothers & Co.

March 17, 1948.

Missouri Brevities

Among the Missouri bankers participating in the underwriting of an issue of $6,084,000 4½% 15-year convertible sinking fund debentures due March 15, 1963, which The Laclede Gas Light Co. is offering at par and accrued interest to its common stockholders of record March 8, 1948, are: Dempsey-Tegeler & Co.; A. G. Edwards & Sons; Stern Brothers & Co.; Friedman, Brokaw & Lesser; Hill Brothers; Metropolitan St. Louis Co.; Reinholdt & Gardner; I. M. Simon & Co.; Edward D. Jones & Co., and Scherck, Richter Co. Subscription warrants to the common stockholders will become void after 3 p.m. (CST) on March 22.

* * *

On March 4 a group of underwriters headed by Kidder, Peabody & Co., New York; G. H. Walker & Co., St. Louis, and Julien Collins & Co., Chicago, publicly offered a new issue of 100,000 shares of Pet Milk Co. 4½% cumulative preferred stock at par ($100 per share) and accrued dividends. The privilege offered to the holders of the 4¼% cumulative preferred and 4¼% cumulative second preferred stockholders of exchanging their shares for the new 4½% preferred stock, on a share-for-share basis, with a cash adjustment of $5.11 per share in each case, expired at 3 p.m. on March 9. The net proceeds from the sale of the 100,000 shares of new 4½% preferred stock will be applied, first to the extent of $5,352,165 to redeem (exclusive of accrued dividends) all outstanding shares of both classes of 4¼% stock, and the balance added to working capital.

* * *

Consolidated Retail Stores, Inc., St. Louis, reduced the quarterly dividend on its capital stock to 30 cents from 40 cents, payable April 1 to holders of record March 18. The 40-cent rate had been paid since and including July of 1946. Herman Husch, President, said that the company expects to continue the 30-cent rate through the remainder of the current year. Net income for 1947 totaled $1,317,386, equivalent to $3.23 per share, against a net of $1,527,295, or $3.85 per share, in 1946.

* * *

The stockholders of Strouss-Hirshberg Co., Youngstown, O., will vote March 29 on approving a plan to merge that company with May Department Stores Co., St. Louis. The plan provides for the transfer on May 10, 1948, of the assets of Strouss - Hirshberg for 148,000 May common shares, which are to be issued as follows: Eight-tenths of a share for each Strouss - Hirshberg share held. Fractional shares will be paid in cash. Maynard H. Murch & Co., investment bankers of Cleveland, will buy and sell Strouss-Hirshberg stock to minimize fractional shares.

The proposed merger would give the May company three additional stores located at Youngstown and Warren, O., and Newcastle, Pa.

* * *

Clinton Industries, Inc., St. Louis, for the three months ended Dec. 31, 1947, reported sales of $11,307,240, as against $12,441,313 in the last three months of 1946.

* * *

An issue of $4,000,000 Interstate Bakeries Corp. (Kansas City) 4% sinking fund debentures due Feb. 1, 1963, were placed privately by Kidder, Peabody & Co. with certain institutions. The net proceeds are to be used to refund the outstanding $2,142,000 first mortgage 4¼% bonds due March 1, 1962, and $1,800,000 of 4½% sinking fund debentures due 1956.

* * *

Century Electric Co., St. Louis, sales for the quarter ended Dec 31, 1947, totaled $6,092,499, compared with $4,313,842 in the corresponding period in 1946.

* * *

Barret, Fitch & Co., Kansas City, and Stix & Co., St. Louis, participated on March 10 in the public offering and sale of an issue of Central Pacific Ry. Co. first mortgage 3⅝% bonds, series B, at 100.35% and accrued interest.

* * *

The Missouri Public Service Commission on Feb. 16 authorized the Southwestern Bell Telephone Co. to issue $100,000,000 additional debentures.

* * *

Stix, Baer & Fuller Co., St. Louis, had sales of $14,068,689 for the three months ended Jan. 31, 1948, compared with $12,209,167 in the quarter ended Jan. 31, 1947.

* * *

Key Co., East St. Louis, reported sales for the last three months of 1947 of $824,194, as against $619,249 in the same period in 1946.

With Trowbridge & Co.

(Special to THE FINANCIAL CHRONICLE)

BATTLE CREEK, MICH.—Gerald E. Nelson of Lansing is now with Trowbridge & Co., Michigan National Bank Building.

The Heavy Industries and Their Securities

By ALFRED S. RUDD*

Research Department, Shields & Co., Members New York Stock Exchange

Mr. Rudd, characterizing heavy industries as those which manufacture capital goods as distinguished from consumer goods, stresses the fluctuating nature of their earnings arising out of instability of demand for their products. Holds, however, heavy industries have been consistently profitable and have present favorable outlook, but cautions selectivity in purchase of their securities.

The term "heavy industry" is a very loose one, and one which defies precise definition. As a general rule, it is applied to the host of companies which manufacture the capital goods for our economy, as distinguished from the consumer goods. As such, it covers a heterogeneous group of companies, which divide into eight or nine sub-divisions, each having little in common with the others as to products or markets and generally as to financial characteristics. The principal common feature of the group as a whole is the fact that the constituent companies are suppliers to the makers of, or are themselves the makers of the machinery, tools and equipment used by industry, agriculture and in transportation.

Alfred S. Rudd

According to my definition, the heavy industries include the makers of (1) agricultural tools and equipment, (2) most building materials, supplies and equipment, (3) apparatus for generating, transmitting and controlling electrical and other forms of energy, excluding household appliances, radios, etc., (4) all types of industrial machinery and equipment, (5) fabricated non-ferrous metals such as brass, copper wire and cable, aluminum, (6) railroad cars, locomotives, trackwork, and parts, (7) ship construction and repair, (8) iron and steel in all forms. The wide diversity of products and markets represented by the foregoing is self-evident.

Characteristics of Heavy Industries

The heavy industry companies, however, have a few things in common. First, they are all manufacturing companies, as opposed to companies engaged in the distribution and service industries. Second, because the markets for their products are in other types of manufacturing industry, in agriculture and transportation, and not with the ultimate consumer, demand is of the "derived" rather than "direct" type, and depends in good measure on factors beyond the control of the producer. Third, domestic capital expenditures for plant and equipment are of paramount importance in determining sales for all. It is a matter of record that domestic expenditures for capital purposes tend to fluctuate over a wide range often within a relatively short period. This is not surprising because, basically, they are conditioned by the willingness and ability of business enterprises, farmers and others to spend relatively large sums for the expansion of their operations, or for the mechanization of operations to improve product quality or lower costs, or for the replacement of worn-out or obsolete equipment. The very nature of the products, in most cases, makes demand easily postponable. As a rule, the products are designed for relatively long life and command relatively high unit prices. Thus, the customer can be easily persuaded to defer purchasing if, in his opinion, clouds are beginning to form on the business horizon.

Reviewing the 1930's, it can be concluded that in that decade a change of about 10% in the gross national product created, on average, a change of roughly 25% in domestic capital expenditures. From 1929 to 1933, when gross national product fell 45%, capital expenditures went off 77%. Conversely, from 1933 to 1937, gross national product rose 60% and capital expenditures tripled. While the 1930's probably are not completely typical, because depression conditions prevailed in most years, they are nevertheless indicative of the volatility of capital expenditures.

Fluctuations in Demand for Products

Finally, the violence of changes in demand for the products of heavy industry is accentuated by the fact that, for many of these products, heavy industry is its own best customer. Moreover, the penalty of changes in demand on company operations is exerted quickly because sudden and unpredictable reductions in new business generally are accompanied by cancellations of orders in hand.

The fact that production rates for capital goods are extremely volatile is borne out by a study of the Federal Reserve Board indexes of industrial production. Starting with the post-World War I business peak, we find that in the ensuing decline in 1921, production of durable goods fell off 43% whereas non-durable goods fell off only 5%. In the succeeding upswing ending in 1929, production of durables rose 150% and of non-durables 63%. Thereafter to 1932, durable goods production declined 69% and non-durables only 25%. In the 1933-1937 recovery, durables rose 200% and non-durables 51%. The 1938 depression resulted in a 36% drop in production of durable goods, and a decline of 10% in non-durables. In the next two years, before the country began actively preparing for war, production of durables rose 77% compared with a 19% rise in non-durables. In 1941 and during the war years, of course, the durable goods received by far the greatest impetus. The usual pattern was upset, to some degree, in 1946 and 1947 because of the war-created shortages in all lines of products. Thus, production of durable goods in 1947 was 60% above 1940 non-durable goods showed a closely comparable gain of 52% over that year. It is readily apparent, however, that normally the extent of the swings in production of durable goods is two to three times as great as those in non-durable goods.

The earnings and dividend records of heavy industry companies, particularly during the 1930's, for the most part clearly reflect these wide swings in the rates of their operations. As a result, these companies usually are loosely referred to as "prince or pauper." The designation is not entirely fair, and certainly should not be universally applied within a group which includes many companies with unbroken dividend records extending back for long periods.

There can be no question, however, that the earning power and dividend-paying capacity of heavy industry companies, as a rule, is subject to greater year-to-year change that is the case with other branches of industry. This, of course, stems from the fact that volume is the chief determinant of profits for most of these companies and that changes in this factor are far more important than, for example, the influence of changing commodity prices. For the most part, the nature of the operations requires relatively large manufacturing units, involving sizable investments in fixed assets. Also more often than not, direct labor is a sizable element in total costs. In combination, these create substantial elements of semi-fixed cost, which usually cannot be readjusted promptly to conform to changing volume. Thus, they produce a pronounced factor of leverage in operating results to the benefit of profits in times of rising volume and the reverse when the trend is down. In addition, it is generally true in heavy industry that manufacturing capacities are geared to meet maximum demands, rather than so-called normal. Consequently, in their efforts to keep idle plant at a minimum, these companies compete sharply for available business in other than abnormal times, such as the present. This competition usually takes the form of price competition, and is responsible for the fact that in all too many heavy industry products the average profit margin is comparatively thin.

Consistently Profitable

Actually, from the record we learn that, prior to the 1930's, most branches of heavy industry were consistently profitable, although results fluctuated over a wide range. During the 1930's, however, the showing was a sorry one. Even the best of the heavy industry sub-divisions had one or more years in the red during that decade, and sharply reduced or omitted dividends were the rule. Moreover, following the precipitous decline which culminated for most of these companies in 1932, the ensuing recovery to 1937 was mediocre. Few heavy industry lines in 1937 even closely approached their 1929 profits, and the great majority recovered only

(Continued on page 43)

*Part of a lecture by Mr. Rudd before the Small Investors Forum, Columbia University, New York City, March 11, 1948.

HIGHLIGHTS OF 1947 OPERATIONS

COLUMBIAN CARBON COMPANY

And Subsidiaries

[TAKEN FROM ANNUAL REPORT]

COMPARISONS 1947-1946

	1947	*1946*
At the Year End		
Net Current Assets	$11,948,841	$11,749,202
Fixed Assets (*Less* Reserves)	24,746,589	21,648,522
Earned Surplus	16,313,397	13,527,050
For the Year as a Whole		
Sales	$41,106,104	$34,363,005
Operating Profit	8,560,760	6,846,196
Other Income	761,005	905,199
Capital Expenditures	6,091,541	5,649,732
Net Profit After Taxes	6,064,196	5,307,861
Net Profit per Share	3.76	3.29
Dividends per Share	2.00	1.60

CONSOLIDATED INCOME ACCOUNT
Year Ended December 31, 1947

SALES		$41,106,104
COST OF SALES AND OTHER OPERATING EXPENSES	$27,524,158	
SELLING, ADMINISTRATIVE AND GENERAL EXPENSES	5,021,186	32,545,344
OPERATING PROFIT		$ 8,560,760
OTHER INCOME:		
Interest and dividends	$ 611,652	
Rentals and royalties	42,972	
Miscellaneous	106,381	761,005
		$ 9,321,765
OTHER CHARGES:		
Interest	$ 33,189	
Loss on disposal of fixed assets	93,233	
Loss on sale of securities	2,199	
Miscellaneous	4,634	133,255
PROFIT BEFORE PROVISION FOR UNITED STATES AND FOREIGN TAXES ON INCOME		$ 9,188,510
UNITED STATES AND FOREIGN TAXES ON INCOME		2,825,000
		$ 6,363,510
MINORITY INTEREST IN EARNINGS		299,314
NET PROFIT (after provision of $2,646,901 for depreciation, depletion, and amortization)		$ 6,064,196

CONSOLIDATED SURPLUS ACCOUNT
Year Ended December 31, 1947

EARNED SURPLUS—DECEMBER 31, 1946		$13,527,050
ADDITION:		
Net profit for year ended December 31, 1947		6,064,196
		$19,591,246
DEDUCTIONS:		
Dividends paid	$ 3,224,436	
Share of excess of cost over book value of subsidiary stock acquired	53,413	3,277,849
EARNED SURPLUS—DECEMBER 31, 1947		$16,313,397
CAPITAL SURPLUS—DECEMBER 31, 1946		$ 21,001
DEDUCTION:		
Share of excess of cost over book value of subsidiary stock acquired		21,001
CAPITAL SURPLUS—DECEMBER 31, 1947		——
TOTAL SURPLUS		$16,313,397

CONSOLIDATED BALANCE SHEET
December 31, 1947

ASSETS

CURRENT ASSETS:			
Cash		$ 7,357,383	
U. S. Government obligations—at cost		724,000	
Marketable securities—at cost (quoted market value $1,045,445)		844,043	
Accounts receivable (*less* $33,720 reserve)		3,433,221	
Inventories:			
Raw materials, in process, finished products and supplies—at lower of cost or market	$3,721,001		
Construction materials and supplies—at cost	701,276	4,422,277	
Total Current Assets			$16,780,924
INVESTMENTS—at cost:			
Natural Gas Pipeline Company of America, 40,700 shares capital stock		$ 521,514	
Interstate Natural Gas Company, Inc., 142,957 shares capital stock (quoted market price $3,145,054)		804,490	
Mississippi River Fuel Corporation, 111,492 shares capital stock		1,154,758	
Other security investments (*less* $105,264 reserve)		362,217	2,842,979
NOTES, ACCOUNTS RECEIVABLE, ETC. (*less* $28,481 reserve)			236,653
FIXED ASSETS—at cost		$64,440,344	
Less reserves for depreciation, depletion and amortization		39,693,755	24,746,589
PATENTS, GOODWILL, ETC.			1
DEFERRED CHARGES			586,360
			$45,193,511

LIABILITIES

CURRENT LIABILITIES:			
Accounts payable and accrued accounts		$ 2,126,048	
United States and foreign taxes on income		2,706,035	
Total Current Liabilities			$ 4,832,083
RESERVE FOR TAXES			580,000
MINORITY INTEREST IN SUBSIDIARY COMPANIES:			
Capital stock		$ 861,084	
Surplus		757,593	1,618,677
CAPITAL STOCK—no par value:			
Authorized	2,000,000 shares		
Issued	1,615,260 shares		
Treasury stock	3,042 shares		
Outstanding	1,612,218 shares	$21,849,354	
EARNED SURPLUS		16,313,397	38,162,751
			$45,193,511

NOTATION—*The net assets of foreign subsidiaries, included at U. S. dollar equivalent, aggregate $491,744, of which $322,258 represents net current assets.*

TO THE BOARD OF DIRECTORS OF COLUMBIAN CARBON COMPANY:

We have examined the consolidated balance sheet of COLUMBIAN CARBON COMPANY AND SUBSIDIARIES as of December 31, 1947, and the related consolidated income and surplus accounts for the year then ended, and (except for certain subsidiaries referred to below) we have reviewed the systems of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence by methods, at times, and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards and included all procedures which we considered necessary in the circumstances.

The accounting records of the Canadian subsidiaries were not examined by us, but we have reviewed their financial statements and the reports thereon of other public accountants, and our opinion given below also covers these statements.

In our opinion, the accompanying consolidated balance sheet and related consolidated income and surplus accounts (together with notations) present fairly the consolidated position of COLUMBIAN CARBON COMPANY AND SUBSIDIARIES at December 31, 1947, and the consolidated results of their operations for the year ended, in conformity with generally accepted accounting principles applied on a basis consistent in all material respects with that of the preceding year.

New York, N. Y. LESLIE, BANKS & COMPANY
February 12, 1948.

Executive Offices: COLUMBIAN CARBON BUILDING
41 EAST 42nd STREET, New York 17, N. Y.

Michigan Brevities

R. H. Platts, President of Standard Accident Insurance Co., Deoit, announces that the stockholders on March 9 authorized an in-:ease of 140,750 shares in the authorized capital stock, and on .arch 10 warrants were mailed to all stockholders offering the new ares at $23.50 per share on the asis of one new share for each ½ shares held of record on iarch 10, such warrants to expire ı March 24. A registration un-:r the Securities Act of 1933 as nended with respect to such ɔck has become effective.

Through an underwriting roup, headed by The First Boston Corporation, all shares of tock not subscribed for through the use of warrants will be purhased so that after the expiration of the warrants the comıany will be enabled to add $3,-135,288 to its surplus to policyholders.

* * *

The Detroit Stock Exchange re-ɔorts that trading volume in February totaled 221,398 shares, having a market value of $3,062,473, as compared with 228,055 shares, with a trading volume of $3,240,-672 in January.

The 10 most active stocks during February were: Detroit Edison Co., Gerity - Michigan Corp., Kaiser-Frazer Corp., McClanahan Oil Co., Peninsular Metal Products Co., Udylite Corp., Gar Wood Industries, Inc., Wayne Screw Products Co., Masco Screw Products Co. and Parke, Davis & Co.

* * *

Stoetzer, Faulkner & Co. and Bennett, Smith & Co., both of Detroit, in February offered 150,000 shares of common stock (par $1) of Sherman Products, Inc. of Royal Oak at $2 per share. Of the net proceeds, it is intended to use $55,650 to pay for tooling costs for new products, $5,000 for equipment, and $185,850 for general working capital. Sherman Products, Inc. is engaged in the business of manufacturing farm equipment, devices and accessories for farm tractors, including special transmissions and power take-off tools.

* * *

The Consumers Power Co., Jackson, according to reports, may be in the market this year with $15,000,000 to $20,000,000 new securities, the nature of which remains to be determined.

* * *

J. W. Leighton, President of Pressed Metals of America, Inc. in the company's annual report for the year 1947 stated that the directors on March 27 will set the date for the payment of a 5% stock dividend on the 268,750 outstanding shares of capital stock of $1 par value. Scrip certificates will be issued where less than 20 shares are held. This stock dividend if sold on the market at $10 net per share would equal a cash dividend of 50 cents per share. Cash distributions of 25 cents each were made on June 10 and Dec. 10, last year.

* * *

Among those offering on March 10 an issue of Central Pacific Ry. Co. of first mortgage 3⅝% bonds, series B, at 100.35% and accrued interest were Watling, Lerchen & Co. and First of Michigan Corporation. The offering was oversubscribed.

Net income of Walker & Co. for 1947 was $467,865, reflecting an increase for the fourth consecutive year, according to Clarence D. Blessed, President. After payment of a $2.50 dividend on the class A preferred stock, the balance represents earnings of $1.70 per share on the outstanding common stock.

A dividend of 20 cents per share has been declared on the common stock, payable May 20, 1948 to holders of record May 11, 1948. This represents an increase of 5 cents per share over the distribution made on Feb. 20. The common stock in 1947 received a total of 55 cents per share.

* * *

Federal Industries, Inc., Detroit, on Feb. 18 filed a letter of notification with the Securities and Exchange Commission covering 300,000 shares of common stock which are to be offered publicly at par ($1 per share). C. G. McDonald & Co., Detroit, will underwrite the issue. The net proceeds will be used for working capital.

* * *

Baxter Laundries Corp., Grand Rapids, reports that net profit for the 52 weeks ended Dec. 27, 1947 amounted to $131,856 after Federal income taxes, compared with $107,331 for the year 1946. All arrearages on the preferred stock have been cleared up with the payment of another dividend of $2 per share on March 8, 1948. On the same date a distribution of 75 cents per share was made on the common stock.

* * *

Associated Grocers, Inc., St. Joseph, on Feb. 24 filed a letter of notification with the Securities and Exchange Commission covering $150,000 6% debentures and 7,350 shares of $100 par value common stock, both to be sold at par to associated store owners. The proceeds are to be used to finance cooperating buying operations. There will be no underwriting of the securities.

* * *

It is also reported that the Michigan Gas Storage Co. may be in the market this year with $3,-000,000 to $4,000,000 bonds.

* * *

Malcolm P. Ferguson, President, in reviewing the highlights of annual report of Bendix Aviation Corp. for the year ended Sept. 30, 1947, reported that sales, royalties, and other operating income were $141,625,820 compared with $106,001,984 in 1946, and $41,726,548 in the best pre-war year. The operating profit of $5,-248,999 for 1947 compared with a 1936-1939 average of $2,480,000. Operating results of the reconversion year 1946 had shown a loss of $12,615,046.

On Jan. 27, 1948 General Motors Corp. offered 399,990 shares of Bendix Aviation Corp. stock to the public at $28 per share, through a group of underwriters. The shares, representing 18.9% of the shares of

(Continued on page 47)

What Foreign Trade Means To Us

By ARTHUR J. WIELAND*
Executive Vice-President, Willys-Overland Motors, Inc.

Mr. Wieland stresses importance of not only the volume of our foreign trade, but also its great advantage because of gains mutually obtained by each nation trading its surplus for the other's surplus. Upholds Marshall Plan as protecting our way of life from consequence of hungry and disordered world, but sees difficulties in expanding world trade because of pegged and unstable currencies. Urges return of free gold market, tariff reductions, elimination of cartels, and world-wide agreement among free peoples on import and export practices.

There is an unnecessary amount of confusion in people's minds when foreign trade is mentioned. We have heard discussions about flooding our markets with cheap goods from abroad, about taking bread out of American workmen's mouths, about unfavorable and favorable trade balances, about our giving our goods away — until we feel that we must take sides and assume a belligerent attitude either for or against foreign trade. We have lost sight of the substance and are battling the shadows. Foreign trade — as any trade— should mean an exchange of products on a mutually advantageous basis.

Arthur J. Wieland

Individually we have no difficulty in understanding the value of an exchange of goods. Those of us who work, are trading our services every day for what to us, is an equivalent — we think in terms of money — but we really mean things — things such as food, shelter, clothing, opportunity and recreation. Putting the word "Foreign" in front of the word "Trade" or "Exchange" does not make it an alien animal — it merely means that we are expanding our borders to embrace a greater area for trading, to give us a greater variety of choice of the products of the world, and to enlarge the market for our products.

But what does foreign trade mean to us? In 1947 our exports totalled about $19 billion and in 1948 it is estimated the figure will be over $18 billion. The value of all construction in the United States, including housing, in 1947 was $13 billion. The automobile industry in that same year totalled approximately $6 billion. In other words, our export trade was as great as the total of the building and the automobile industry combined — surely an indication of importance that no citizen, no businessman can ignore either in total or in trend.

The Gain of Foreign Trade

But those figures, gigantic as they are, do not tell the whole story. Our goods, our machinery, our services, are bought by other countries because they need them —because the addition of these products of our labor will add to their productivity and to their standards of life. Then they will be able to export to us—something we need and want—goods which will enrich our economy. Surplus traded for surplus—each side gaining in the trade and each side becoming economically stronger in the process.

Today we are facing a decision on the Marshall Plan. Most of us are confused by the verbiage and wonder how it differs from many other plans and schemes, all of which added up to the same result —we pay the bills. The Marshall Plan contemplates each recipient country putting its internal house in order financially and then receiving from us that part of the necessary funds for rehabilitation which they cannot raise themselves. Our dollars are to be made available on the basis of a liquidating loan which is definitely repayable.

The administration of the plan, the politics that will become involved, and the end results cannot be measured at this time. The fact remains that we are the bankers of the world and it is to us that nations wishing to retain their political and economic freedom must come for help. If we still believe, in spite of two wars, that we can keep out of the troubles of Europe, then we can be quite casual and indifferent in our evaluation of the necessity of lending a helping hand. However, if we believe that isolation is a myth, that our destiny is linked with that of the world, then it behooves us to give all the help we can, both financial and economic, as some help now would be easier to finance than another war.

Implications of Marshall Plan

The Marshall Plan does not contemplate giving any nations abroad billions of dollars. The intention as I understand the plan, is to make available credits in this country for some $5 to $6 billion so that the countries that have been devastated by war can rehabilitate their productive facilities and earn their way out of the class of charitable institutions. We must realize that the Marshall Plan, or a plan by any other name that contemplates shipping American products abroad, is a drain on the standard of living of this country unless we are prepared to accept other products of labor from those recipient countries. We loan machinery and goods and we must be prepared to accept goods—the results of man's labor —in payment. If we ship billions of dollars of American goods abroad as we did in the 1920's and do not secure payment, we have given this material away. Individually we were paid for our labor or produce—but collectively our economy had been drained of that wealth. That is not Foreign Trade, that is a Foreign Gift and in the "giving" game we all pay. The old theme "Let the Government pay" has been exploded and brought down to understandable levels by our present income tax rates. The Government "Toils not neither does it spin." Its only income is from taxing your efforts and mine—and in the end the bill is paid by you and by me.

I am separating the humanitarian aspect of feeding the hungry, which is the privilege and the responsibility of the strong and well fed, from the economies of foreign loans. If we are afraid that feeding the hungry makes us sound religious or sentimental, then let's put it on the basis of protecting our own way of life from the inevitable consequence of a hungry and disordered world. One family in a village could not live in luxury while the rest of the people starve, and one family in the village of nations cannot achieve that dubious prominence.

For the good of our own economy we should make loans to foreign countries but we must do it on the basis of a long range plan for improving the basic economic situation of the people who are receiving the loan. Poverty cannot be cured by charity which at best can only take the immediate suffering out of the situation. Poverty and want can be cured only by making man's productivity high enough to provide for his needs.

When we speak of some of the sub-standard nations of the world and orate on their need for a better standard of living, we are wasting our words unless we can suggest a plan for increasing the individual productivity of the people of that nation. There is no use of our dreaming about inciting in every Chinaman's breast the desire for shoes, clothing and motor cars unless at the same time we figure out some way of increasing Mr. Chinaman's productivity. At the present time he produces practically the same amount that he consumes. His production must be increased so that the margin between what he produces and what he consumes is sufficient to generate capital and wealth. It is only with this surplus that he can buy the tempting offerings of the world's ingenuity.

When we look at the problem of India and discuss how we must improve the lot of the poor Indian, again we must produce some plan which increases that Indian's productivity. As long as he plows a small bit of earth with a crooked stick and grows just enough food to keep himself and his family in a state of semi-starvation, there is no possible way by legislation or slogans to make him a consumer of world goods — and there are too many millions of people in the world in this economic strata.

Extending Help on Self-Liquidating Basis

The problem could be partially solved by extending financial and technical help on a self-liquidating basis, but we hesitate to do this because the political situation is too uncertain and we are afraid of the big bad wolf "communism." It is a vicious circle—if we don't do something to improve the economic status of millions of underprivileged people around the world, we are, in a left-handed way, tilling the soil for the group we fear. If we make investments and the political structure of the country is not secure we may find we have financed our enemies. But we can't solve the problem by doing nothing.

Perhaps we are attempting too much on too wide a front. We fought for democracy — true democracy — and consequently believe in it with a deep rooted conviction. But you can't impose democracy on a people who do not realize what it is and are currently more interested in food and shelter. Democracy — a voluntary association of people free politically and spiritually can come only when those people are free economically — free from the fear of hunger and want, free from the fear of exploitation of the mass by a few—free from the fear of injustice and oppression.

U. S. A Deciding World Force

We are the leaders of the world. We were the deciding force that eliminated Nazism from the world because, as a free people, we could not visualize living in a world dominated by that type of ideology. We eliminated the Japanese who were engaged in a

(Continued on page 36)

*An address by Mr. Wieland at the University of Toledo, Toledo, Ohio, March 4, 1948.

Connecticut Brevities

Standard Screw Company reported consolidated earnings of $2,697,824 for the year ended Dec. 31, 1947. This compares with $2,073,805 for the preceding year. On a per share basis, earnings were $9.50 and $7.28, respectively, after provision for taxes and preferred dividends. During the year $2,992,097 was used for building program and machinery costs, and commitments for the first half of 1948 amount to $2,861,274. It is hoped that the new plant in Windsor will be ready by June or July.

The President of the company pointed out that the reported earnings of most companies today do not present a true picture of the results of operations on a current basis because of the fact that depreciation charged to the year's operations is based to a large extent on costs prevailing many years ago rather than current replacement cost. If current replacement cost were figured, reported earnings would be considerably smaller than shown. In view of this, a large proportion of reported earnings must be plowed back into the business in order to maintain the company's plant and equipment in good condition.

* * *

For the 12 months ended Jan. 31, 1948, Connecticut Light & Power reported total operating revenue of $34,797,259 against $31,383,065 the preceding 12 months. For the same periods, net income was $5,331,469 or $3.37 per share on the common based on 1,305,066 shares in 1947, and $5,062,896 or $3.75 a share based on 1,148,126 shares in 1946. Fixed charges were covered 6.12 times against 5.32 times.

For the month of January, 1948 total operating revenue was $3,226,970 against $2,933,145 for January of 1947. Net income was $444,883 and $372,473 respectively.

Sales of kilowatt hours for February, 1948 amounted to 99,675,000 compared with 93,423,000 kilowatt hours the preceding February.

* * *

J. B. Williams Co. of Glastonbury, showed operating income of $456,113 for the year ended Dec. 31, 1947 against $989,844 the preceding year. Net income for 1947 was $281,237 against $587,781 for 1946.

Giving effect to the 100% stock dividend approved by the stockholders on Feb. 25, 1948, adjusted earnings per share based on the new 199,000 shares would be $1.09 for 1947 against $2.62 for the previous year.

* * *

Fafnir Bearing Co. in their income account for the year ended Dec. 31, 1947 showed net income of $1,641,267 after deducting a reserve of $500,000 for replacement of fixed assets. This compares with net income of $1,194,874 a year ago. Earnings per share, adjusted to reflect the 2½-for-1 stock split and the 100% stock dividend were $2.05 for 1947 compared to $1.49 for 1946.

* * *

Operating revenue of the Southern New England Telephone Company for the year ended Dec. 31, 1947 totalled $40,827,907 against $37,284,525 the preceding year. Earnings per share for 1947 were $4.30 against $7.42 for 1946, based on the average number of shares outstanding during the year. The 500,000 shares outstanding at the end of 1946 were increased by 100,000 shares during the year 1947. While the dividend was earned during the fourth quarter, it was necessary to make withdrawals from surplus to maintain the annual dividend rate of $6.00.

Total gross expenditures for additions to plants in 1947 were nearly $20,000,000. The number of telephones in service at the end of 1947 was 645,000 or an increase of 58,200 over 1946.

* * *

The Connecticut Public Utility Commission has given the Southern New England Telephone Company authority to issue $15,000,000 3⅛% 30-year bonds to mature March 1, 1978.

* * *

The Stanley Works of New Britain reported net earnings of $4,534,360 or $8.09 a share for the year 1947 compared with $3,617,977 or $7.47 for 1946. Consolidated sales were $59,389,953 which represented an increase of 34% over the preceding year.

* * *

For the year ended Dec. 31, 1947, Scovill Manufacturing Company of Waterbury reported consolidated net income of $4,318,005 or $3.31 a share on the common after charges, taxes and preferred dividends. This compares with $3,236,703 or $2.61 a share for 1946.

* * *

At the annual meeting of the Billings & Spencer Company it was reported that net income for the year 1947 was $129,817 or approximately 70c a share against $15,506 or 8c a share in 1946. Sales increased approximately 26% over 1946. During the year, $350,000 was placed in a plant building reserve. Earned surplus at the year end was $615,888 against $523,159 at the of 1946.

* * *

Net sales of Hartford Rayon for the year ended Dec. 31, 1947 were $2,647,017 against $2,745,988 in 1946. Net profit for the year was $63,066 which compared with $223,749 for the preceding 12 months.

* * *

Total income for Bristol Brass Corp. for the year ended Dec. 31, 1947 was $730,664 against $1,020,725 the preceding year. Net income was $392,560 or $2.62 a share, against $573,107 or $3.82 a share in 1946.

* * *

In their consolidated income account for the year ended Dec. 31, 1947, Marlin-Rockwell Corp. showed gross operating profit of $6,337,702 against $3,570,552 for 1946. Net income was $3,386,551 or $9.98 a share for 1947 against $1,780,661 or $5.25 a share the previous year.

* * *

The New Haven Water Company earned $3.34 a share on the capital stock in 1947 against $4.01 in 1946. Net income was $467,757 against $560,872 the preceding year. Fixed charges were covered 3.35 times and 3.83 times respectively.

Buckley Securities Corporation Formed

Buckley Brothers, members o the New York and other Stoc Exchanges announce the forma tion of Buckley Securities Cor poration to conduct and invest ment business as underwriters wholesalers and dealers. Willian L. Nolan will direct the affairs o the corporation as executive Vice-President, and principal offic will be in New York, at 44 Wal Street, with branches in Philadelphia and Los Angeles.

Mr. Nolan was active in the investment banking business fo many years and while abroac studied European securities markets and practices. In 1934 he joined the staff of the Securitie and Exchange Commission a technical advisor and remained with the SEC until 1936. From then until he joined Buckley Brothers this year he was active as a financial and industrial consultant.

A native of Boston, Mr. Nola is a graduate of Harvard and c the Suffolk Law School. He wa admitted to the Massachusetts Ba in 1922.

Malcolm L. Saunders Now With A. G. Woglom

BOSTON, MASS.—Malcolm L Saunders, formerly manager o

Malcolm L. Saunders

the trading department of Raymond & Co., is now associated with A. G. Woglom & Co., Inc., 49 Federal Street.

V. E. Breeden Headquarters In San Francisco

SAN FRANCISCO, CALIF.—V. E. Breeden, whose election as Vice-President of William R Staats Co., was recently reportec in the "Financial Chronicle," will make his headquarters in the firm's San Francisco office, 111 Sutter Street.

NSTA Notes

THE SECURITY TRADERS ASSOCIATION OF NEW YORK, INC.

The 12th Annual Dinner of the Security Traders Association of New York will be held at the Waldorf Astoria on Monday evening, April 19, 1948. Dinner tickets will be $12.50 per person, including all taxes. Arnold Wechsler and his hard working arrangements committee have plans under way to make this party an outstanding success. As they naturally are desirous of taking care of members first, all are urged to make dinner and hotel reservations immediately. Dress will be strictly informal.

Ticket Reservations—Leslie Barbier, G. A. Saxton & Co., Inc., Telephone WHitehall 4-4970.

Hotel Reservations—Wellington Hunter, Aetna Securities Corp., Telephone COrtlandt 7-4400.

The standing committees appointed for the current year are as follows:

Transportation Committee—Walter Saunders, Dominion Securities Corp., Chairman; Barney Nieman, Carl Marks & Co.; B. Winthrop Pizzini, B. W. Pizzini & Co.

Veterans Committee—George A. Searight, Aetna Securities Corp., Chairman; William H. Boggs, Kalb, Voorhis & Co.; Harry J. Hardy, Hardy & Hardy; Larry Lyons, Allen & Co.; Arthur Vare, Hourich & Co.; William Weiffenbach, Charles E. Quincey & Co.

Arrangements Committee—Arnold J. Wechsler, Ogden, Wechsler & Co., Chairman; Leslie Barbier, G. A. Saxton & Co., Inc.; Philip T. Barmonde, First Colony Corp.; D. Frederick Barton, Eastman, Dillon & Co.; George L. Collins, Geyer & Co.; Thomas Greenberg, C. E. Unterberg & Co.; Wellington Hunter, Aetna Securities Corp.; Charles H. Jann, Estabrook & Co.; James F. Kelly, Kidder, Peabody & Co.; D. Raymond Kenney, Kenney & Powell; Allen F. Moore, H. Hentz & Co.; Elmer E. Myers, B. W. Pizzini & Co.; Soren D. Nielsen, Newburger, Loeb & Co.; Henry Oetjen, McGinnis, Bampton & Sellger; William T. Schmidt, Laird, Bissell & Meeds; Thomas O. Shortell, Newborg & Co.; Theodore R. Young, Young, Aal & Golkin.

Publicity Committee—Alfred F. Tisch, Fitzgerald & Co., Chairman; T. Geoffrey Horsfield, Wm. J. Mericka & Co.; Ronald A. Morton, Blue List Publishing Co.; Herbert D. Seibert, Commercial & Financial Chronicle; Eliot H. Sharp, Investment Dealers Digest; Raymond Trigger, Investment Dealers Digest; Graham Walker, National Quotation Bureau, Inc.; Louis Walker, National Quotation Bureau, Inc.

Auditing Committee—Otto Berwald, Berwald & Co., Chairman; Jeremiah J. Fasano, J. B. Lang & Co.; Henry R. Schmidt, Pulis, Dowling & Co.; Bertram A. Seligman, Ward & Co.

Membership Committee—Robert A. Torpie, Merrill Lynch, Pierce, Fenner & Beane, Chairman; Frank W. Aigeltinger, Aigeltinger & Co.; Thomas J. Mullins, White, Weld & Co.

By-Laws Committee—Stanley Roggenburg, Roggenburg & Co., Chairman; Stanley C. Eaton, Bendix, Luitweiler & Co.; William K. Porter, Hemphill, Noyes & Co.; Herbert T. Redmond, Frederick S. Robinson & Co.; Harold B. Smith, Collin, Norton & Co.

Municipal Committee—Harry J. Peiser, Ira Haupt & Co., Chairman; Edward N. Ganser, First of Michigan Corp.; John H. Gertler, Gertler, Stearns & Co.; James F. Musson, B. J. Van Ingen & Co.; Faris S. Russell, Jr., Glore, Forgan & Co.

Employment Committee—Willis M. Summers, Troster, Currie & Summers, Chairman; T. Frank Mackessy, Abbott, Procter & Paine; Wilbur R. Wittich, Maxwell, Marshall & Co.

Sports Committee—Lawrence Wren, Allen & Co., Chairman; Arthur J. Burian, Strauss Bros., Inc.; Joseph J. Cabble, Abraham & Co.; Frank J. McCall, Schwamm & Co.; Samuel Gronick, Gilbert J. Postley & Co.; Gerald F. Kane, Luckhurst & Co., Inc.; Herman D. Meyer, Stern & Co.; Theodore E. Plumridge, J. Arthur Warner & Co., Inc.

Reception Committee—Michael J. Heaney, Joseph McManus & Co., Chairman; Richard F. Abbe, Richard F. Abbe Company; Chester E. deWillers, C. E. deWillers & Co.; John E. Kassebaum, Van Alstyne, Noel & Co.; B. Winthrop Pizzini, B. W. Pizzini & Co., Inc.; Stanley Roggenburg, Roggenburg & Co.; Walter F. Saunders, Dominion Securities Corp.; Harold B. Smith, Collin, Norton & Co.; Willis M. Summers, Troster, Currie & Summers; Benjamin H. Van Keegan, Frank C. Masterson & Co.; Wilbur R. Wittich, Maxwell, Marshall & Co.

Tax & Legislation—P. Fred Fox, P. F. Fox & Co., Chairman; Murray L. Barysh, Ernst & Co.; Charles King, Charles King & Co.; Earl E. Land, Green, Ellis & Anderson; John F. Sammon, J. F. Sammon & Co.

Forum—Richard F. Abbe, Richard F. Abbe Company, Chairman; Lester T. Doyle, Hardy & Co.; Carl Stolle, G. A. Saxton & Co., Inc.

Illinois Security Dealers To Hold Election

CHICAGO, ILL.—William H. Sills, Sills, Minton & Company, Chicago, has been nominated for President of the Illinois Securities Dealers Association to succeed F S. Yantis and will head the slate of new officers to be voted on at the organization's annual meeting and dinner April 13 in the Chicago room of Hotel La Salle James M. Dick, William H. Flentye and Co., Aurora, is the nominee for Vice-President.

Directors nominated for two-year terms include O. G. Corns, R. M. Byllesby and Company, Joseph E. Dempsey, Dempsey & Co., Edward M. Harkness, Mason, Moran & Co., and Paul Yarrow, Clement, Curtis & Company, all of Chicago; and David L. Heath, Heath & Co., Elgin.

Ralph W. Davis of Paul H. Davis & Co. is nominated for a one-year vacancy on the board.

Two With F. L. Putnam Co.

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, ME.—Gorham D. Hoffses and Mark A. Means have become associated with F. L. Putnam & Co., Inc., 97 Exchange Street. Both were previously with Paul & Co., Inc.

$200 Million Ohio State Bonus Bonds Placed on Market

Nationwide syndicate of 283 members headed by National City Bank, the Bankers Trust Co., Chase National Bank and Halsey, Stuart & Co. Inc.

The National City Bank of New York, Bankers Trust Company, The Chase National Bank and Halsey, Stuart & Co. Inc., head a nationwide banking group of 283 members which on March 17 offered to the public a new issue of $200,000,000 State of Ohio World War II 2% compensation bonds, dated April 15, 1948. The bonds, due semi-annually from Oct. 15, 1948 to April 15, 1963, are priced to yield from .75% to 1.95%, for bonds maturing on and before Oct. 15, 1961, and at a dollar price of par for bond maturing April 15, 1962, Oct. 15, 1962 and April 15, 1963. The group bid 100.5[illegible] for the issue, designating the 2% coupon, which represents a net interest cost to the State of 1.9[illegible]89%. Proceeds of the issue will be applied to the payment of a bonus to Ohio veterans of World War II.

The sale marks the first time the State of Ohio has entered the market for funds through the issuance of general obligation bonds since 1922 when an issue of $25,000,000 of adjusted compensation 1 to 10-year 4¾% bonds were sold to distribute a bonus to Ohio veterans of World War I.

The new issue of $200,000,000 of 2s is exempt from Federal income taxes and the constitution of the State of Ohio provides that the bonds and interest on them shall be exempt from all taxes levied by the State or any taxing district of the State. They are eligible, in the opinion of the bankers, as legal investment for savings banks and trust funds in New York, Ohio, Massachusetts, Connecticut, and certain other states. The current issue constitutes the only outstanding bonded debt of the State of Ohio.

R. W. Yoder & Renick With A. G. Edwards

(Special to THE FINANCIAL CHRONICLE)

SAINT LOUIS, MO.—Ralph W. Yoder and Fred A. Renick have become associated with A. G. Edwards & Sons, 409 North Eighth Street, members of the New York and St. Louis Stock Exchanges and other leading Exchanges. Mr. Yoder was formerly sales manager for John R. Kauffmann & Co. with which he had been associated for many years.

Four With Dean Witter

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—George W. Bryan, Thomas L. Little, Donald R. Mayne, and William M. Witter have been added to the staff of Dean Witter & Co., 45 Montgomery Street, members of the New York and San Francisco Stock Exchange.

MacNaughton-Greenawalt Adds

(Special to THE FINANCIAL CHRONICLE)

GRAND RAPIDS, MICH.—Merritt A. Reeves, Jr., is now with MacNaughton-Greenawalt & Co., Michigan Trust Building, members of the Detroit Stock Exchange.

With Pike Grain & Secs. Co.

(Special to THE FINANCIAL CHRONICLE)

LOUISIANA, MO. — Frank C. Haley 3rd has become associated with the Pike Grain & Securities Co., Mercantile Bank Building.

Halsey, Stuart Group Offers Louisiana Power & Light Co. Bonds

Halsey, Stuart & Co. Inc. and associated underwriters offered to the public March 17 $10,000,000 Louisiana Power & Light Co. first mortgage bonds, 3⅛% Series, due March 1, 1978 at 100.485% and accrued interest. Award of the bonds was won by the group at competitive sale on a bid of 100.2912.

Net proceeds will be used to finance in part the company's construction program and for other corporate purposes. The program for 1948, 1949 and 1950 will require expenditures estimated on the basis of present day cost at $18,200,000.

General redemption prices for the Bonds range from 103.49% to 100% while special redemption prices are scaled from 100.49% to 100%.

The company is one of four subsidiaries of Electric Power & Light Corporation which make up a coordinated and inter-connected system in portions of Louisiana, Arkansas and Mississippi. It is engaged, as a public utility, in the generation, transmission, purchase, sale and distribution of electricity, purchase, sale and distribution of natural gas; transportation of passengers, and activities incidental to such operations.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week — Bank Stocks

The proposed mergers of Continental Bank & Trust Co. with Chemical Bank & Trust Co., and of Fifth Avenue Bank with Bank of New York, added a little life to the bank stock market, and moved it up approximately 3.0% above the 1947 year-end level, as measured by the American Banker Index. However, this index is distorted by the 52.7% appreciation of Continental; it is also of interest that Fifth Avenue Bank, not included in the index, appreciated 44.1%. The following table shows the individual market moves of 18 New York City bank stocks from Dec. 31, 1947 to March 12, 1948.

	Dec. 31, '47	Mar. 12 '48	% Change
Bank of Manhattan	25¾	25	— 2.9%
Bank of New York	355	363	+ 2.3
Bankers Trust	39	39½	+ 1.3
Central Hanover	91¾	88¾	— 3.3
Chase National	36¼	37	+ 2.1
Chemical Bank & Trust	41¾	41¾	No Change
Commercial National	41	45¼	+10.4
Continental Bank & Trust	16⅛	24⅝	+52.7
Corn Exchange	55¼	53	— 4.1
Fifth Avenue	930	1,340	+44.1
First National	1,295	1,275	— 1.6
Guaranty Trust	264	269	+ 1.9
Irving Trust	16⅛	16¾	+ 3.9
Manufacturers Trust	49⅜	49	— 0.8
National City	41	39⅝	— 3.4
New York Trust	87¼	85½	— 2.0
Public National	39¾	40¼	+ 1.3
U. S. Trust	630	550	—12.7
AVERAGE OF 18	--	--	+ 5.0%
*AVERAGE OF 16	--	--	— 0.5%
American Banker Index	37.9	39.0	+ 2.9%

*Excluding Continental and Fifth Avenue.

The only two banks which have moved substantially, are Continental and Fifth Avenue. On average, these 18 stocks have moved up 5.0% during the period. However, when Continental and Fifth Avenue are eliminated, the remaining 16 stocks have declined, on average, 0.5%. Of these 16, seven have appreciated, Chemical shows no change, and eight have declined. Maximum appreciation is the +10.4% of Commercial and maximum decline is the —12.7% of United States Trust.

The main attraction of bank stocks, currently, is on an income basis, though the possibilities of long-term appreciation should not be ruled out. The following table shows current dividend yields of 16 leading New York City stocks, also ratios to book values and the extent to which dividends were earned in 1947 by net operating profits.

	Asked Price 3-12-48	Annual Dividend Rate	Yield	No. Times Div. Earn. 1947	Dec. 31, 1947 Bk. Val.	Ratio Mkt. to Bk. Val.
Bank of Manhattan	25¾	$1.20	4.7%	1.72	$32.24	79.9%
Bank of New York	355	14.00	3.9	1.56	456.06	77.8
Bankers Trust	39	1.80	4.6	1.63	50.25	77.6
Central Hanover	91¾	4.00	4.4	1.67	121.46	75.5
Chase National	36¼	1.60	4.4	1.57	43.52	83.3
Chemical	41¾	1.80	4.3	1.45	43.26	96.5
Commercial	41	2.00	4.9	1.83	58.81	69.7
Corn Exchange	55¼	2.80	5.1	2.10	58.12	95.1
First National	1,295	80.00	6.2	1.07	1,367.43	94.7
Guaranty Trust	264	12.00	4.5	1.45	360.67	73.2
Irving Trust	16⅛	0.80	5.0	1.57	22.90	70.4
Manufacturers Tr.	49⅜	2.40	4.9	1.96	60.03	82.3
*National City	41	1.60	3.9	2.03	48.18	85.1
New York Trust	87¼	4.00	4.6	1.63	107.33	81.3
Public National	39¾	2.00	5.0	2.12	54.25	73.3
U. S. Trust	630	35.00	5.6	1.04	731.82	86.1
AVERAGE	---	---	4.75%	1.65	---	81.4%

*Including City Bank Farmers Trust.

This table shows that choice New York City bank stocks can be bought, on average, to yield 4.75% on dividends earned 1.65 times by net operating earnings, alone, exclusive of security profits and recoveries. Furthermore, they are selling at an average of 81.4% of book values as of Dec. 31, 1947. The book values, it is important to note, have been steadily increasing over the past 15 years.

According to the record of the past 16 years, bank stocks, as a group, have sold below book value approximately one-third of the total time and above book value two-thirds of the time. Recently, they have been selling below book value since about mid-1946.

The "IMF"—A Troubled Infant

By HERBERT M. BRATTER

Stressing departure from international cooperation evinced by Bretton Woods Conference, Washington observer points to French currency imbroglio as indicating multilateral exchange system as supported by International Monetary Fund has not been accomplished. Looks for devaluation of sterling, and concludes International Monetary Fund is "one legged table" of obvious instability.

WASHINGTON, March 17—The International Monetary Fund, an experiment in cooperation, completed its first year of operations on Feb. 29. Unlike its twin, the World Bank, the IMF was a case of planned parenthood. Sired by Lord Keynes and mothered by Washington New Dealers, the Fund paradoxically is a reactionary institution in the sense that it seeks to restore, albeit by untried means, the ideal of order and stability in the international exchange markets which existed or is believed to have existed briefly in the late 1920s.

Herbert M. Bratter

The IMF has not been having a very happy childhood. Launched on its own under an elaborate set of rules and powers it has sought to control uncontrollable forces. At Bretton Woods in 1944 it could be said that there existed a considerable measure of international collaboration. Cynics there could and did point to the USSR's churlishness, or to the Latin American selfishness. But the major allies among the United Nations at least were then fighting a common enemy. Today the war clouds have swirled about into unfamiliar and strange combinations. Belatedly, new alliances are being created. Yet, although it has been less than four years, what the American delegation at Bretton Woods reported as a "spirit of international cooperation" has gone with the wind.

The Anglo-French Imbroglio

Consider the recent Anglo-French imbroglio over the franc. There are hardly two other countries which so much ought to be in harmony. Yet this was a bitter issue between them in the Fund. It still is an issue there, and the IMF is struggling with its repercussions. The "temporary" exchange system the French have been trying to create in Paris threatens to make some already-existing multiple-rate systems look rather moderate. To allow the franc to find its own level of stability, France has instituted a new official rate for the dollar and the Portuguese escudo, plus a so-called free market which is not free in all senses. Thus, France has openly acknowledged that the franc's par value, which had been previously declared to and accepted by the IMF, was unrealistic. But France has been unwilling to acknowledge a similar decline in the franc's value vis-a-vis the currencies of some of its neighbors. The Fund has lately had to deal with Franco-Belgian, Franco-Italian and other complicated currency negotiations. France has been negotiating new official rates, in terms of the franc, for the lira, the Belgian franc, the guilder, etc., deviating from the relationships embodied in the Fund system of parities and exchange rates.

Having been openly defied by France, the Fund was pleasantly surprised when Chile agreed to simplify within a year its extremely complicated multiple-rate system. The opening of this prospect of improvement in one small quarter is attributed in IMF circles to the fact that Chile had just witnessed the "scenes" created by France and that it is a suitor for dollars both from the Fund and Bank, and from the American Government, which has such a large say in the Fund.

It is because of the large USA vote in the Fund and in contrast the one-country-one-vote system in the International Trade Organization that the American delegation at the London, Geneva and Habana conferences has sought wherever possible to place under the Fund's rather than ITO's jurisdiction questions of restrictions to safeguard the balance of payments, non-discriminatory administration of quantitative restrictions and exceptions thereto. In this the American delegation has met the strongest resistance, notably from Latin America.

Latin American Dissatisfaction

At the Bogota Pan-American economic conference soon to open the Latin Americans are expected to gang up on the United States, and the Fund and Bank as well. The Latinos are very unsatisfied with the small aid they have got from the IMF and the slowness of the World Bank in handing over dollars. They say they will give the Bretton Woods program a fair trial, and if they do not get more recognition they will ultimately withdraw. Of the Fund, they complain that all it does is to think up new restrictions and prohibitions. And the Bank's efforts to get them to settle with American holders of their defaulted bonds before it will lend to them, they view with undisguised annoyance.

The ITO charter is a mighty weak instrument, compared with the powers and sanctions given the Fund at Bretton Woods. Despite its specific powers, its weighted voting system, which greatly simplifies procedure, and the sanctions inherent in its several-billion-dollar nestegg, the IMF has been unable to get its authority accepted by some of its neediest members. Sometimes, as in the case of the Greek certificate plan or the similar Italian arrangement for the sale of foreign exchange, the Fund is not consulted in advance because, presumably, the member did not understand its obligations to the Fund. In other cases the Fund is plainly ignored and reads about action taken by members in the newspapers. Members seem ever on the prowl for loopholes in the Articles of Agreement, which in directors' meetings there is a continuous effort to weaken and in effect rewrite by reinterpretation. Often the Fund has to arrange *ad hoc* consultations on half-baked

(Continued on page 47)

Restore Free Gold Market in U. S.!

By NEIL O'DONNELL*

Executive Vice-President, Idaho Maryland Mines Corporation

Mining executive, asserting present price levels will be maintained, and because higher costs in gold mining have not been offset by higher gold price, proposes immediate return to free gold market in U. S. and removal of restrictions on ownership of gold, but calls for continuation of purchase by Treasury of all gold offered at minimum of $35 per ounce.

A year ago in an article on gold for the American Mining Congress "Journal," I stated that the gold mining industry in the United States and elsewhere was in the doldrums. The situation in February, 1948, is little changed from January, 1946. What is the cause of this difficulty? There are two causes. One is the scarcity of skilled labor and the other is the mounting cost of mining. The scarcity of labor can be traced to many things, but the real cause is the war and the world-wide unrest created by the war. The increase in costs has been attributed to many things, including the war. No doubt the war had an effect on prices, but an effort to pull the nation up by its bootstraps through "controlled" inflation has had an even greater effect.

Solutions of the Problem

There will be no drop in prices soon in an economy that is undergoing "controlled" inflation.

It is my belief that prices will not go back to the 1939-40 level again. The reason is that our obligations in the form of veterans administration costs, interest on our enormous debt, assumption of the police duties of Britain and maintenance of another armed truce will call for such extensive taxation that costs of both labor and supplies will not go back to prewar levels, even though we materially reduce our budget requirements.

The labor scarcity can only be cured by training a new generation of miners. The training of a new generation of miners will require from 2 to 4 years and will be an expensive item, indeed. This is a hidden cost, but a very real one.

Increase in Price

The only solution that seems to be practical in the view of most operators and students of the problem is an increase in the price to be paid the gold miner. From the standpoint of the miner, gold is a commodity like copper, cotton, wheat or lumber. His costs of production have gone up as have the costs of the manufacturers of most any commodity you can name. He should be entitled to an increase in the selling price of his commodity, he reasons, like any other manufacturers. His point is well taken, but—because gold is the backbone of the world's monetary systems—he finds that an entirely different set of conditions control gold production than control production of other commodities.

Opposition to an Increase in Price

There has been an organized resistance to an increase in the price of gold by our Treasury Department. What has been the basis of this resistance?

The Treasury Department has said an increase in the price in the United States would be inflationary. A similar question directed to a responsible officer of the International Monetary Fund elicited the same answer, arrived at from slightly different approaches. We have had the further statement that too many men and supplies are being diverted from the production of consumer goods by gold mining. While these reasons may be good reasons, I feel that they are not the real reasons that our Treasury Department follows the program it does follow relative to gold.

Treasury Program

The Treasury program has been to maintain an artificially low price for gold in terms of dollars. Mr. Herbert M. Bratter, in an article in the "Commercial and Financial Chronicle" had this to say recently relative to that matter:

"Although in most of the world a whole generation is growing up without ever touching or seeing a gold coin, unless in a museum, gold is still the basic element in this country's monetary and credit structures; and from the standpoint of external convertibility for all practical purposes the dollar is on the gold standard, although it would be closer to the truth to say that gold is on the dollar standard."

This is a statement of fact. The Treasury has maintained an effort to keep gold on a dollar standard and thereby keep the world's currencies on a dollar standard. The happenings of the last few weeks demonstrate the fallacy of such thinking.

Result of Program

The result of the Treasury's program has been manyfold — most of it bad. Because of the effort to keep currencies at an ar-

(Continued on page 43)

*A paper presented by Mr. O'Donnell before Colorado Mining Association, Denver, Colo., Feb. 6, 1948.

What Banks Face in Mortgage Lending

By JOSEPH M. DODGE*

President, American Bankers Association

President, The Detroit Bank, Detroit

ABA President outlines changes in bank mortgage lending and warns, because of overfinanced properties, high appraisals, and more risks, difficulties are likely to develop when substantial real estate market revisions take place. Says lending has been on extremely easy terms and mortgage debts are inflated. Gives advice to banks in matter of protecting mortgage investments and concludes probably there will come a time of collection difficulties, foreclosures and sales of mortgage property. Looks for slackening in mortgage lending.

It seems to me that if we had learned anything at all from our past experience in mortgage lending, it is that the mortgage investment account in a bank is not the self-administering asset that at one time too many bankers thought it was. That was in the days when banks made all the mortgage loans possible; collected the usual comfortable 6% interest; discouraged principal payments; ignored depreciation and neighborhood obsolescence disregarded first liens in the form of unpaid property taxes; and increased their dividends from the return on what appeared to be a low-cost, high net income asset. At that time, the commercial and savings banks generally loaned from 50% to 65% of their savings deposits on mortgages. Then when adverse conditions arose they were embarrassed to find that the circumstances which led to deposit withdrawals stopped interest and principal payments. Collection efforts sometimes led to state legislatures declaring debt moratoriums. A mortgage actually became as fixed an asset as the bank building. They were no help in meeting depositor withdrawals. As deposits declined, the 50 to 65% of savings deposits in mortgages quickly became larger percentages. Many banks not only lost what little liquidity they had but continued to pay dividends from accrued but uncollectible mortgage interest. Generally speaking, bankers were disposed to be most satisfied with the asset which was destined to make them a great deal of trouble.

Joseph M. Dodge

Undoubtedly there were many real lessons learned from this experience, from the collection difficulties, from the foreclosures and losses taken, from the liquidity stagnation, from the false book income, and from the unpaid tax claims which had to be advanced to protect the loans. Probably most banks will not repeat many of them. But, we must not forget that while the nature of the problems may have changed to some degree, the mortgage account is not without its source of problems today. It is about these that I will direct my first comments.

Changes in Mortgage Loan Situation

The principal change in the situation is that as gross income we now have a one-quarter or one-third lower interest rate, a long term of monthly payments to service, a much larger loan in relation to property value, and a price inflation problem.

The first effect of these factors is to create a substantially greater expense of administration and a much lower net return. Accurate costs will show a net return on mortgage investments much

(Continued on page 38)

*An address by Mr. Dodge before the Eastern Regional Savings and Mortgage Conference of ABA, New York City, March 16, 1948.

Securities Salesman's Corner

By JOHN DUTTON

In many lines of business today management is becoming conscious that salesman had better learn how to sell all over again. The public is beginning to pick and choose—no longer is it an order taker's paradise for many sales organizations. But in the securities business we have been in a buyer's market for almost 21 months. In order to sell securities today it takes ingenuity, ideas, follow through and plenty of hard work. If those in industry are looking for harder sledding when it comes to selling their products, and would like to have a few ideas of "what it takes," they might ask some of the salesmen in the stock and bond business for some pointers. There is no doubt that the men who are making a success of selling securities today know how to sell when the going is tough. They have what it takes.

Ideas are a dime a dozen so the saying goes, but be that as it may, here is one I picked up from a conversation with a salesman who is doing a fairly good job, despite the public's apathy toward investment. He said he was seeing new faces. He selected a common stock that had depreciated along with the rest of the market to levels which indicate that it is a most attractive semi-investment opportunity today. This company has several very superior new products which it has placed upon the market during the past year. These products have met with wide acceptance and approval by many of the firms that have used them. He obtained a list of some of these firms; also architects, builders and distributors who were in a position to be familiar with the company in question and its products. He said he went out cold. He called in person to see purchasing agents, executives, and the proprietors of some of these organizations. He told them his firm had made a very thorough study of the situation, and he found that most of the people he interviewed were not only interested in talking with him, but they were also interested in investment. There is evidence in abundance today that securities salesmen who go out and make the calls will find that people are most receptive toward them. What this salesman discovered in this particular instance was that his prospects were most familiar with the company and therefore he was bringing something to their attention that was more like an old friend rather than something new and forbidding. This idea is not new by any means, but it is true that going after new customers is not only one of the best ways to increase sales volume when conditions are such as today, but it also brings new vitality and pep into your own activities.

What happens when you see new people is that you become more alert—you polish up your rusty equipment—you obtain the necessary mental stimulation that all salesmen need when you talk to a new face. You are on your toes instead of down on your heels. If you hear some complaining, it will be about what the other salesman sold—not what you sold. Do you ever wonder how much the average investor would like to have someone new come in to see him and tell him about the bright side of it for a change? If you stop to think about it, all that your own customers desire to do when you call is to ask you about their paper losses. They want to know when the securities they bought from you are going up again. This they have been asking for almost two years—and you have been giving them the same answers. Meanwhile the entire rig-a-ma-jig is becoming tiresome to them and to you.

But seeing new faces is a different story—they can't ask you when the securities they bought from YOU are going up again—all they can ask is, "What do you think about them?" New accounts can be opened today—it is being done all over the country by salesmen who are not following the same old beaten paths every day. But you must see new people—and make the calls. If you have a natural idea; something attractive to offer, and you know how to meet people and do a real selling job, there is business to be had. But it takes work today—this is not an order taker's paradise as far as concerns the securities business.

Kalb, Voorhis & Co. New Partnership

The present partnership of Kalb, Voorhis & Co. will be dissolved on March 31 and a new partnership will be formed as of April 1, with offices at 25 Broad Street, New York City. Partners will be John Kalb, Peter A. H. Voorhis, Louis Orchin, William M. Thomas and Horace Silverstone, who will acquire the New York Stock Exchange membership of Milton Mensch. Mr. Silverstone, a member of the New York Curb Exchange, was formerly a partner in Gruss & Co.

Schafer, Miller & Co. To be Formed in N. Y.

Schafer, Miller & Co., members of the New York Stock Exchange, will be formed as of April 1 with offices at 15 Broad Street, New York City. Partners will be Oscar S. Schafer, Benjamin Miller, John R. Meaney, member of the Exchange, and Gerald B. Nielsen. Mr. Nielsen was previously with Francis I. du Pont & Co. and Merrill Lynch, Pierce, Fenner & Beane. Other partners were all members of Kalb, Voorhis & Co.

Walter Fitzgerald & Co. To be Formed Shortly

W. J. Fitzgerald, Jr.

CHICAGO, ILL.—Walter Fitzgerald & Co. will be formed to engage in a securities business as of April 7 from office at 231 South La Salle Street. The new firm will act as investment brokers, dealing in municipals, corporation bonds and stocks, and Canadian securities. Walter J. Fitzgerald, Jr., principal of the firm, for many years has been with Harriman Ripley & Co., Inc.

Banks Participate in Belgian Loan

Seven join with Export-Import Bank in furnishing Belgium $50,000,000.

Seven private commercial banks agreed to participate with the government's Export-Import Bank in lending $50,000,000 to Belgium for purpose of obtaining goods in the United States. The Export-Import Bank put up $32,000,000 and the private banks supply the remaining $18,000,000. The participating banks are Chase National, J. P. Morgan & Co. Inc., Guaranty Trust, National City, and Bank of America National Trust and Savings Association, all of New York; the Philadelphia National Bank, and the First National Bank of Chicago.

The credit is granted to the National Bank of Belgium on security of $50,000,000 in notes of the Government of Belgium and endorsed by the Belgian National Bank.

World Bank Bonds Made "Legals" in Va.

The Virginia State Legislature has passed a bill approving bonds of the International Bank for Reconstruction and Development as legal investment for life insurance companies. The bill now goes to Governor Tuck for signature. Such qualification has been granted by legislation in 26 states other than Virginia. In some states legislation is not required.

Virginia has 11 life insurance companies, with total admitted assets of well over $328 million, according to latest statistics.

International Bank bonds are qualified as legal for insurance company investment in the seven states having the largest totals of admitted assets, including New York, New Jersey, Massachusetts, Connecticut, Pennsylvania, Wisconsin and Illinois. Virginia ranks 17th in admitted assets of life insurance companies. All states with $1 billion or more in life insurance assets have officially approved bank bonds as legal investments.

G. H. Walker Adds Bailey in Hartford

HARTFORD, CONN.—G. H. Walker & Co., members New York Stock Exchange and other leading exchanges, announce that Lewis H. Bailey, Jr., is now associated with the firm's Hartford office recently opened in the Hartford National Bank Building, 36 Pearl Street.

Mr. Bailey was formerly associated with The First Boston Corp. in that firm's Hartford office.

ERP Hopes and Fears

By PAUL EINZIG

Dr. Einzig notes, although Communist coup in Czechoslovakia has converted many Britons in favor of Marshall Plan, because of communist infiltration into British trade unions, Labor Government is gravely handicapped in efforts to work out nation's salvation. Says timely and adequate Marshall aid would do much to restore economic equilibrium and relieve present British Government from entailing additional political risks.

LONDON, ENGLAND.—The dramatic events in Czechoslovakia have converted in favor of the Marshall Plan many former British opponents of American financial assistance to Britain. For it is feared that in the absence of adequate and timely American aid the government might have to resort to measures which would facilitate the task of the Communists to disseminate discontent, and which might easily drive Left-Wing Socialists into an alliance with the Communists. Any drastic austerity measures affecting the working classes, and any really serious attempt at lowering wages might produce such effect.

Dr. Paul Einzig

There is already much discontent among the rank and file of the government's supporters against the high price of tobacco and should, in the absence of ERP aid, tobacco supplies become exhausted, it would give rise to widespread bitterness against the government. Likewise, the suspension of mid-week sports events, which was decided upon last year in order to reduce absenteeism from mines and factories, is so unpopular that the government is seriously considering the idea of reversing its decision. Should delay or inadequacy of Marshall aid necessitate a cut in food rations it would provide an excellent opportunity for Communist elements to stir up discontent.

A much more dangerous opportunity would be provided by the active pursuit of the recently announced policy of stopping the increase of wages. Trades Unions are riddled with Communists, and even if the official decisions of the Unions were in favor of complying with the government's request by postponing wage demands there would be a crop of unofficial strikes. The ensuing feeling of bitterness against the Unions for their refusal to support the unofficial wage demands, and against the Labor Government for their opposition to wage increases might drive millions of industrial workmen into the camp of the British Communist Party.

This being the situation, the government is gravely handicapped in its effort to work out Britain's salvation. Most measures that would be effective would necessarily be unpopular, and for political reason the government does not consider that it can afford to incur unpopularity just now. Timely and adequate Marshall aid would go some way towards restoring equilibrium without any measures that would entail undue political risk. Even if the Marshall Plan were to be passed without modification, however, assistance expected under it during the first year or so would only cover about half the "gap" in the balance of payments as indicated by the present extent of the gold drain. This means that in spite of ERP far-reaching measures will be called for in order to balance imports from exports.

In the circumstances the report of Representatives Kunkel and Walters on the United Kingdom, extracts from which have just reached London, has caused considerable dismay and uneasiness on this side. The full text is not yet available, but the extracts cabled over seem to indicate the underlying spirit. The two points which are causing grave concern are the suggestions that, in return for Marshall aid, Britain should be made to abstain from competing with American exports in hard currency countries, and that she should abstain from building ships which would compete with the existing American merchant fleet. Quite possibly the extracts, divorced as they are from their context, may convey a false impression, but it is an impression which conforms to earlier indications.

Two of the main causes of the deficit in Britain's balance of payments are the import surplus in relation to hard currency countries and the absence of an adequate merchant fleet. The suggestions of Representatives Kunkel and Walters, if adopted, would perpetuate these adverse factors, and would go a long way towards nullifying, in the long run, the beneficial effects of Marshall aid. Unless Britain is able to reduce the trade deficit in relation to hard currency countries, and unless she is able to increase net earnings from shipping freights, ERP aid would only reduce the drain on her gold reserve which would become exhausted sooner or later. And then the risky and unpopular measures would have to be applied. The only benefit derived from the Marshall Plan would then be a postponement of the adoption of such measures from about the middle of 1948 to about the middle of 1949. And there is no reason to suppose that the necessary measures would then be any less dangerous politically than they are now.

It is strongly felt in official and expert circles in London that it would be fatal if the United States were to seek to restrain, by means of strings attached to ERP, Britain's ability to reduce the adverse balance of payments. Judging by the report quoted above and also by other advices, even now this is not adequately realized in the United States. For, although the report of the two Congressmen who investigated conditions in Britain last year is couched in most friendly terms, even they fail to realize the vital importance of giving Britain every chance to recover her ability of eliminating the "gap" and dispensing with the necessity of continuous American assistance.

Another report which is causing grave concern in Britain is the apparently well-informed forecast that Mr. Clayton would be appointed to the post of ERP administrator. His name is associated in the minds of British official circles with the ill-fated premature convertibility experiment which Britain was made to undertake largely through his influence, and with the dogmatic and rigid application of the principle of non-discrimination. It is feared that, should the reports prove to be well-founded, it would mean that for the sake of temporary relief Britain would be expected to sacrifice her chances of ever achieving economic independence through working out her own salvation.

World Bank and ERP

By JOHN J. McCLOY*

President, International Bank for Reconstruction and Development

World Bank executive sees no detriment, but rather assistance to his organization in Marshall Plan. Points out Bank serves as bridge between government and private financing, with its operations limited to self-liquidating projects. Discusses problems of ERP Administration and importance of cooperation on part of European countries, and suggests an international administrative staff owing allegiance to no national government. Urges immediate action, backed up by full political and military steps, if necessary

It is a great pleasure and honor to be asked to attend this dinner even though I am now called upon to perform for it. What with the high sophistication which attends all writers who have travelled far and been places, I wish it were possible for me to do nothing more than to sit here and absorb.

John J. McCloy

Once on my feet, however, my instincts are to go through my usual routine and to tell you about the corporate structure of the International Bank for Reconstruction and Development, to suggest to you how wise are its policies, how talented its staff, and how worthy its objectives. When the Bank was first formed it was considered a mighty institution with enormous potentialities. It was never as big as some of the headlines painted it but it was something extraordinary both as to its size and purpose. Today, with new agencies being set up or talked of to cover so-called dollar shortages in all parts of the world it would appear that we have some formidable competitors in the recovery field. This is particularly so when such agencies derive their money from the public treasury and are not concerned in many situations whether the money is repaid or not as long as very general objectives are attained.

I am not complaining, however, of lack of borrowers. The advent of these other agencies and these larger sums directed to basic recovery not only, in my judgment, do not render ineffective the work that the Bank may do but greatly increase its possibilities for effective operations. They will if well administered tend to bring about the sooner that state of economic equilibrium or near equilibrium which will enable the Bank to function in its most appropriate field with more confidence and greater security. The European crisis has had the tendency to educate the public better as to the appropriate functions of the Bank and to moderate some of the transports with which the organization of the Bank was initially hailed in 1944. It is now realized that it is not and cannot be the overall financer of the accumulated balance of payment deficits of the world nor is it the financer of the accumulated five-year plans of the world. It is, or can be, a continuing international banking facility capable of financing or rather assisting to finance economically strategic and productive projects throughout the world where the local efforts justify such assistance. It has real flexibility and even if some piece of financing cannot be termed a "project" in the strict sense, the Bank can undertake it if it is shown that it is productive and stimulating to trade and recovery. If there is a limitation upon the amount of capital it may provide because it is necessary to appeal to investors for its capital, that is likewise the Bank's strength and I venture to say that, by reason of this attachment of the Bank's activities to the necessity of competing with other investing possibilities in the capital market, there lies perhaps the greatest element of the Bank's strength and independence.

A Bridge Between Government And Private Financing

The Bank appears small now in relation to the Marshall Plan but if it can be, as it was designed to be, the bridge between government and private financing, if it can restimulate the flow of private capital about the world, its potentialities will compare favorably with those of the Marshall Plan and it will continue a useful existence long after the Marshall Plan has passed from the scene. The Bank's role in the future, as in the past, will be to make productive loans with good prospects of repayment. Such loans will be the more possible if a broad base is given to the reestablishment of a sound European economy by the proposed recovery program.

But I repress the instinct to talk more about the institution of which I am a member, partly because I am not really attempting to sell bonds, at least to this audience, partly because the events of the past few weeks have crowded in upon us so closely as to direct our attention to other subjects.

I wish we could approach a solution of the world situation today with the certainty that the application of definite rules would achieve definite results within a definite period. It would be so much easier if this were the case. All we would need to do would be to learn our rules slavishly and follow them completely.

I am reminded and also comforted by a story of Winston Churchill which, as writers you may appreciate, if you have not heard it too many times before. It seems that Mr. Churchill, after working on a draft of a particularly important and inspiring speech, sent it over to the Foreign Office for their comments prior to his delivering it. In the course of the draft speech Churchill had ended one of his mighty passages with a preposition. In about 24 hours the speech came back with no comment of substance upon it, but a Foreign Office purist had neatly encircled the offending preposition and careted it back up to its proper place in the sentence. The Prime Minister took one look at the correction, roared his rage, and immediately dispatched a note to the Foreign Office, "This is the type of arrant

(Continued on page 40)

*An address by Mr. McCloy before the Overseas Press Club of America, New York City, March 16, 1948.

Now Bradberry & Co.

LOS ANGELES, CALIF.—Due o the death of J. O. Davis, the irm name of Davis, Bradberry :o., Inc., 549 South Olive Street, as been changed to Bradberry & Co., Inc.

Mutual Funds

By HENRY HUNT

"Locking the Door BEFORE the Horse Is Stolen"

The function of mutual fund investment management is twofold: (1) Selecting securities for purchase that appear attractively priced or undervalued.

(2) Eliminating any portfolio security that appears overvalued or deteriorating in quality.

The trouble with many investors who like to pick their own individual securities is that although their selection may be sound at the time of purchase they hold on too long. Frequently they won't sell merely because they have a small loss. If they do sell, it is generally after some bad news comes out and the "horse is stolen."

With the above thought in mind let us examine the elimination of 35 leading investment management groups during the first quarter of **1947.** Based on a compilation of Henry A. Long which appeared in this publication last May, these companies' heaviest sales a year ago were in amusement, rubber, railroad, and merchandising shares. As measured by the "Dow," the stock market is currently about 10% below its February, 1947, high. However, from February, 1947, highs to date, prices of the above groups have declined as follows:

	% Decline
Amusement	40%
Rubber	28
Rails	17
Merchandising	17

It is also interesting to note that the heaviest **purchases** of these companies during the first quarter of 1947—over $3,000,000 worth—were in the oil group—a group that is **higher** today than it was a year ago.

The above is a sample of what the mutual fund investor obtains at a cost of about ¾ of 1% of his principal per annum.

Broad Street beats the "Dow" by 92%

The Broad Street Investing Corporation, one of the Seligman Group, can point with pride to an exceptionally fine long term performance record. From Jan. 1, 1930, to the end of 1947, the asset value of Broad Street including distributions from realized profits, has increased 40% while the Dow-Jones Industrial Average declined 27% during the same period. Thus an investment of $1,000 in "Broad Street" 18 years ago was worth $1,400 at the end of 1947, or 92% more than a $1,000 in the "Dow" which had depreciated to $730. It is also interesting to note that had "Broad Street" retained its original portfolio intact through this 18-year period, its asset value would have had declined 26%, approximately the same as the "Dow." Only six issues of the 45 held on Jan. 1, 1930, survived and appear in the year-end portfolio of 54 issues.

In a recent bulletin the **Broad Street Investing Corp.** points out, "Successful investing depends not only on the proper initial selection of stocks, but constant and informed supervision must be maintained. We know it is not often that the individual investor betters the Dow-Jones industrials." **Broad Street's** ability to better this average by 92% since 1-1-30 is both noteworthy and basic.

Definition

She's the kind of woman that goes through life demanding to see the manager.

"We the people"

The Annual Report of **Merrill Lynch, Pierce, Fenner & Beane,** familiarly known as "We the People," has the following interesting statistics about the firm's business last year.

887,865 separate security transactions were completed on which income averaged $16.38.*

335,496 commodity transactions were executed at an average commission of $15.09.

Orders came from 150,000 different customers.

71% of the firm's customers had incomes of less than $10,000 last year.

29% reported income above $10,000.

Wage earners were more numerous among their customers than executives.

*The present stock exchange commission on 100 shares of a $12 stock is $16.

First anniversary

With this issue, the Mutual Fund column is now in its second year under its present authorship. We are grateful to our advertisers who have grown in number and hope that readers of this column have increased as well.

More truth than poetry

A trial lawyer, fairly fresh from his Bar Exams, was defending a client accused of embezzling $500,000 from his employer.

The young lawyer's summation concluded with "Your honor, my client couldn't have stolen half a million dollars—even $100,000. If he had, he wouldn't have hired a lousy lawyer like me."

Notes:

Wellington Fund recently declared its 73rd consecutive quarterly dividend, amounting to 20¢ a share.

National Securities & Research Corp. has revised its folder on Preferred Stock Series, currently selling to return more than 5¾%.

Distributors Group has prepared an interesting study called "The ABC of Values in Steel Stocks."

New York Stock Exchange Weekly Firm Changes

The New York Stock Exchange has announced the following firm changes:

Donald F. Lippincott will retire from partnership in Dixon & Co. on March 31.

Harold M. Gottlieb will retire from partnership in Spiegelberg & Co. on March 31.

Charles W. Baker, Jr. retired from partnership in Laird, Bissell & Meeds on March 10.

Frederick L. Schuster withdrew from partnership in Lehman Bros. on Feb. 29.

Loomis L. White died on Mar. 9.

Transfer of the Exchange membership of the late Sidney S. Wormser to Eugene M. Geddes will be considered on Mar. 25. Mr. Geddes will continue as a partner in Clark, Dodge & Co.

Transfer of the Exchange membership of Leland M. Kaiser to John G. Carhart will be considered on March 25. It is understood that Mr. Carhart will act as an individual floor broker.

Gamwell & Co. Will Admit William Luce as Partner

William F. Luce will be admitted to partnership in Gamwell & Co., 40 Wall Street, New York City, members of the New York Stock Exchange, on March 25. Mr. Luce, who in the past was a partner in Wainwright, Luce & Willetts, will acquire the Exchange membership of William W. Gamwell. Mr. Gamwell will retire from the firm on March 27.

Letter to the Editor

Recalls Birth of Republican Party

Noble Berrien writes "Chronicle" concerning 94th anniversary of organization of the Republican Party at Ripon, Wis.

Editor, Commercial and Financial Chronicle:

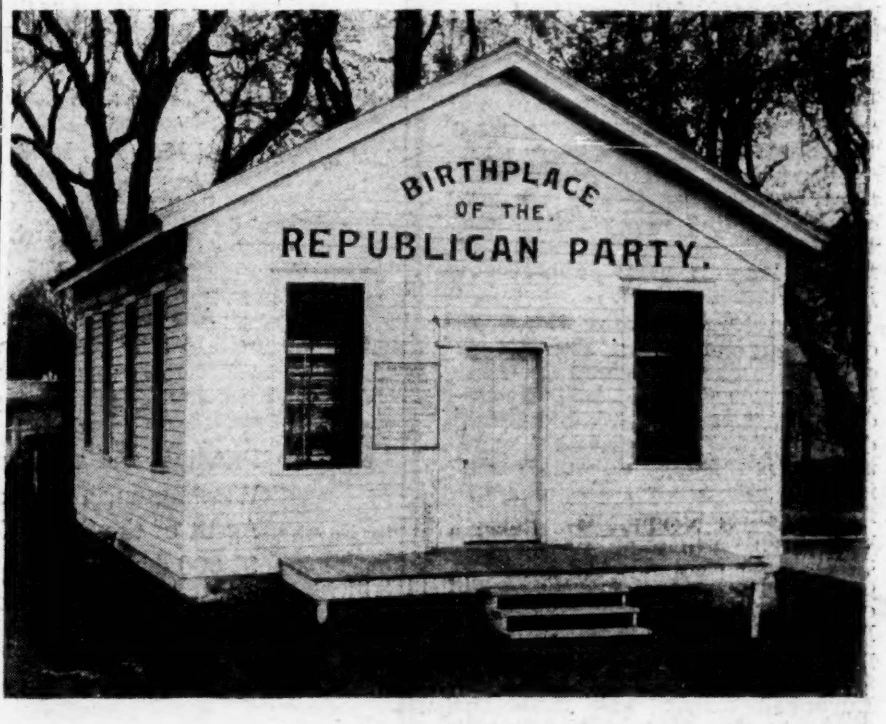
In the light of the deep and spontaneous repentance of a vast throng of American folk, expressed in the November, 1946, elections, it might be well to become reminiscent.

In the mid-1850's, a band of "curious idealists" gathered in the then small town of Ripon, Wis., (population now 4,566), and, amid the singing of hymns and the utterance of fervent prayer, founded the Republican Party. It represented the God-fearing, God-loving, tenacious American unafraid, who asked no quarter and compromised with no man on what one believed to be right and the truth. The "curious idealists" were ridiculed by a large portion of the press of the country. Democrats Whigs and members of sundry "splinter" parties derided these "fantastic fanatics."

Noble Berrien

Months later, a tall lanky mid-Westerner joined their cause. He was not long in drawing a great following in the immediate territory. Late in 1859 he received an invitation to go to New York, all expenses paid, to make an address on Feb. 27, 1860. On a Saturday before his scheduled address, the homely mid-Westerner walked into the office of Henry G. Bowen, editor of the "Independent," through whom arrangements for the address had been made, and said, "This is Abraham Lincoln." Said Mr. Bowen, in relating the incident, "I found a very tall man wearing a tall hat and carrying a comical-looking carpetbag. My heart went into my boots as I greeted the stranger. His clothes were travel-stained, and he looked tired and woebegone. There came to me the disheartening thought of the great throng I had been instrumental in inducing to come and hear Lincoln the following Monday night. Sunday, the day before his address he attended Plymouth Church in Brooklyn and heard the great Beecher."

When Monday night arrived and the committee escorted him from the Astor House to Cooper Union,



Pictured above is the School House in Ripon, Wis., where the Republican Party was conceived. The plaque at the entrance of the structure bears this legend: "Birthplace of the Republican Party—In this School House March 20, 1854, was held the first Mass Meeting in this country that definitely and positively cut loose from old parties and advocated a new party under the name Republican."

he must have had misgivings, for such men in attendance as General James W. Nye, George Putnam, George Bancroft, Noah Brooks, William Cullen Bryant, David Dudley Field were formidable. In contrast to their ease and good grooming, Lincoln began to feel the mental discomfort of his new "store suit" and the acute physical pain as his new boots were rubbing the skin off his ankles. One of the party inquired if he were lame. When he began his address, his high-keyed voice the peculiar accent, which he had derived from his Kentucky and Southern Illinois upbringing, and his very evident nervousness all worked against him. As Noah Brooks looked at the audience and at Lincoln he said to himself, "Old fellow, you won't do; you're all very well for the Wild West, but you will never 'go' down in New York!"

No tricks of the oratorical trade could serve in that gathering. But, Abraham Lincoln was no trickster, on the platform, or off. He was a man in deadly earnest, forgetful of himself, mindful only of what he had to say. The bad moment quickly passed.

Before the speech was half over Noah Brooks changed his mind about Lincoln, and said: "His face lights with an inward fire. He's the greatest man since St. Paul!" Even the skeptical Greeley was convinced. "That's the most powerful speech I ever heard!" he declared as Lincoln closed. The speech requiring about an hour to deliver, after the first few moments Lincoln discarded his manuscript and spoke to that very distinguished audience as he would have spoken in the court room, on the rude backwoods platform, or to his neighbors in a drug store or in a grocery in Springfield. Almost instantly he had realized that under those broadcloth coats and starched shirts were beating the same kind of hearts that throbbed beneath the sweat-stained hickory shorts of rural Illinois.

If he had prophetic gift, as he sometimes seemed to have, he must have felt that the wings of

destiny were beating above his head as he again walked the streets in quiet Springfield. Whether he knew it, or not, his road was clear at last. It ran sometimes shining gloriously and sometimes steeped in unfathomable gloom—straight to the White House, to the Gettysburg speech, and to the second inaugural—to the preservation of the Union, the freeing of the slaves, and, immortality. The die was cast that very night at Cooper Union.

And, from the days at that little town of Ripon, Wis., when the new party was launched by devout prayer and hymn singing, on, through the Republican administrations of Lincoln, and succeeding Republican administrations there has been fostered the greatest material and spiritual progress enjoyed by any peoples of any government, of all time, only interrupted by three Democratic administrations—one of which was able and economically administered, and two of which have saddled the people of the United States with a debt increased by nearly three hundred billions of dollars, ($300,000,000,000) and a burden of taxation, well nigh unbearable.

Reviewing the past — weighing the merits of 56 years of Republican functioning, and the merits of 30 years of Democratic experimentation — the overwhelming vote of a freedom-loving people has brought again into being a majority Republican Congress, both branches, and it is to be hoped will be the fore-runner of a Republican chosen as the head of the Executive branch of our government, seven months hence.

It would be well for the Republican Congress and the forthcoming Chief Executive, if they may endeavor to gain inspiration from the band of the "curious idealists" of Ripon, and from the great wisdom and deep religious fervor of its first elected President, by getting down to bed-rock — taking God into account in governmental affairs, as well as in personal lives, to the end that the terrific depression, lurking ahead, in the present generation may be bravely met, and dealt with wisely.

(Signed) NOBLE BERRIEN.
March 17, 1948.

EDITOR'S NOTE—Mr. Berrien is a retired Financial Writer, formerly Financial Editor of Atlanta "Constitution," and also special writer for the "Wall Street Journal," whom the late Wm. Peter Hamilton termed his "Agricultural Economist." Mr. Berrien his written for weeklies and monthlies and is now engaged in "Business Brokerage." He strongly feels the article herewith points the way as a panacea for our National ills, and as a means of constructive achievement of Peace the world over, after so many failures by other approach.

G. H. Chance Now With First California Company

(Special to THE FINANCIAL CHRONICLE)

FRESNO, CALIF. — Gabe H. Chance has become associated with First California Company, Bank of American Building. Mr. Chance has been conducting his own investment business in Fresno under the firm name of G. H. Chance & Co.

Buckley Brothers Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Harvey C. Fleming has been added to the staff of Buckley Brothers, 530 West Sixth Street.

With Merrill Lynch Firm

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Paul M. Hornbecker is now with Merrill Lynch, Pierce, Fenner & Beane, 523 West Sixth Street.

News About Banks and Bankers

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED
CAPITALIZATIONS

At a special meeting of the Board of Directors of the **City Bank Farmers Trust Company of New York** held on March 10, W. Randolph Burgess Chairman of the Executive Committee of the National City Bank of New York, was elected Chairman of the Board of the Trust Company to succeed the late Gordon S. Rentschler. At the same meeting, William Gage Brady, Jr., who was on March 9 appointed to the Chairmanship of the **National City Bank of New York** to succeed Mr. Rentschler, was elected a member of the Board of Directors of the Trust Company. Reference to the appointment of Mr. Brady as Chairman of the Board of the National City Bank, and the other appointments at the same time, appeared in our March 11 issue, page 1118. The death of Mr. Rentschler on March 3 was noted in a separate item on page 1118.

W. R. Burgess

* * *

In a letter under date of March 15 to the stockholders of the **Continental Bank & Trust Company of New York**, issued at the instance of the Board of Directors, details are set out as to the two proposals which were made for the disposal of its assets and business as noted in our issue of March 11, page 1118, the stockholders are to meet on April 12 to vote on the sale of its assets to the **Chemical Bank & Trust Company**. As previously noted, on page 1012 of our March 4 issue, a proposal had also been made to the Continental by the **New York Trust Company**. The letter of the directors of the Continental Bank states that on the basis of estimates that can now be made, the amount that will be received by the Continental's shareholders, as a result of the acceptance of the offer of the Chemical Bank, is approximately $25 per share. It is added that "this estimate is, of course, subject to adjustment because of contingencies not now definitely ascertainable." As to the two proposals the letter to the continental stockholders says in part:

"Due consideration was given to the fact that the difference in the two proposals before the Board was not reflected in the premium feature alone, but also in other factors. The Chemical proposal was finally approved by your Board on March 4, 1948 for the reasons hereinafter stated:

"The proposal of the Chemical Bank & Trust Company includes a premium of $500,000 over the book value, to be established by joint committees of both banks. In addition, Chemical undertakes to pay for furniture, fixtures and equipment at fair value, with a guaranteed minimum of $250,000. On the basis of the proposed method of appraisal, the actual amount of this latter item should be approximately $277,000.

"This proposal also provides that Chemical will take over the portfolio of United States Government investments at amortized book value, with the further provision that if the market value on the Closing Date should be higher than such book value, they will then pay for the portfolio at market. On Feb. 26, 1948, this portfolio showed a market depreciation against amortized cost of $613,000. These items in Chemical's proposal aggregate $1,390,000 over the appraisal value of recorded book assets.

"The New York Trust Company, on the other hand, offered a premium of $1,250,000. The value of furniture and equipment is included in this amount to the extent of $200,000. The New York Trust Company also offered to pay for permanent fixtures up to, but not over $50,000. These items in the New York Trust proposal aggregate $1,300,000 over the appraised value of recorded book assets. In the New York Trust proposal, United States Government investments would be valued at the average of the bid and asked market prices on the Closing Date.

"In regard to expenses, Chemical's proposal contemplates, a contribution toward this item in the amount of $60,000. The New York Trust Company offered to contribute to these expenses $35,000, and then in turn offered to assume the expenses to be incurred in the transfer of the Trust Department business up to $250,000 Assuming that the expenses in the latter category should reach such an amount, the net total of the two proposals would show a potential difference in favor of the New York Trust's proposal of some $135,000, or 27 cents per share.

"At the time that the two proposals were considered and passed upon by your Board, the guarantee by Chemical against loss on the Government Bond portfolio, completely eliminated any hazard to which the Government Bond portfolio might be subject by reason of fluctuations in the market. The New York Trust Company proposal contained no such assurance. As indicated above, on Feb. 26, 1948, the depreciation in price was $613,000. It is recognized that the market price of the Government Bonds in said portfolio can go up as well as down, but your Board felt that in a transaction of the type herein involved, where the determination of the price to be paid for said portfolio is to be made at a date in the future, the stockholders are afforded protection under the Chemical proposal which could not be measured in dollars. Assurance to stockholders to the greatest extent possible of a guaranteed liquidating value for said portfolio was of the utmost importance.

"Another important determining factor in favor of Chemical was the fact that it was able to give positive assurance to your Board that it could make satisfactory arrangements for taking over the lease of the principal office of your Trust Company at 30 Broad Street, and so relieve the Continental of any contingent liability thereon. The New York Trust Company was in no position at that time to give any such assurance. After carefully considering and weighing the foregoing as well as other factors, your Board of Directors decided that the Chemical proposal was in the best interests of the stockholders and should be submitted to them for their action.

"Your Board also gave due consideration to the fact that the stocks of New York City banks for some time past have been selling below their book value. Your Trust Company's stock on Dec. 31 1947, immediately prior to any negotiations for the purchase of the Trust Company's business, was selling at approximately $15 per share or about 33% below its book value. The recent rise in the market value of your stock has occurred since the inception of these negotiations.

"If the Chemical agreement is approved, it will result in cash distributions to you, as stockholders of the Continental, of an amount which, it is believed, will

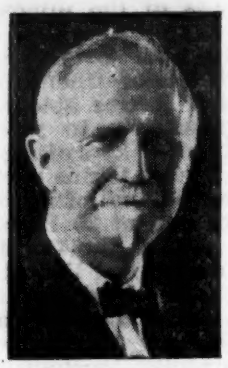
(Continued on page 24)

The Recent Slump

By ROGER W. BABSON

Though stating a staggering recession, amounting to a major depression, is overdue, Mr. Babson holds it will not come in 1948. Expects only a 5% decline in business in 1948, and points out, since greater values exist in stock market than in any other field, stock prices may even rise this summer.

Let us examine the prospects for general business during the remainder of 1948. In any such consideration, it is necessary to realize that the average of business volume throughout the country is a robust 31% above normal. Naturally, such feverish output cannot continue forever. If you have been following the "Babson-chart," you have seen the businesscurve set all kinds of new records. In accordance with the Law of Action and Reaction upon which my forecast theory has for 40 years been based it would appear that a staggering recession—even amounting to a major depression—is overdue. This, however, will not come in 1948.



Roger Babson

I am often asked if the break in stock and commodity prices is the beginning of such a toboggan slide. Even if the remarkable rate of activity registered in 1947, is not entirely duplicated this year, the average decline should be small. In fact, we expect a 5% decline in 1948 business volume from the extremely high 1947 volume.

Purchasing power will move along at a very high level. I forecast that the national income for 1948 will about equal the $190 billions estimated for 1947. The individual tax bill may be somewhat lower. Therefore, the general picture is one of plentiful buying power. Farm incomes may possibly suffer some losses, but should not fall more than 20% below current levels which are well above parity.

Wholesale Commodity Prices

Whether the inflation spiral in wholesale commodity prices has yet fully run its course, remains to be seen. The recent drastic slump in the major commodity futures market may well have marked the turning point; but it would be unwise to be too inflexible on this score. A serious crop failure, plus a third round of wage increases could result in commodity prices again turning upward.

Record domestic employment level, at high wages, also spells continued large public purchasing power, despite inflated prices. Production costs are unlikely to drop, and probably will advance further, should labor make a successful bid for increased wages as a result of advancing living costs. These major factors should be kept in mind.

Labor and Stocks

Labor leaders have two primary aims for this year. The first is to obtain a third round of wage increases to offset advances in the cost of living. During the next few months a great many union contracts will expire and many others will reach the wage reopening phase. Before the third quarter of 1948 is reached, organized workers of the nation may have added a little more to their take-home pay—but very little and in most industries nothing.

Inflation has passed the stock market by. Greater value may exist dollar-for-dollar in the stock market today than in any other part of our economic system. Thus, it would be only natural to expect that stocks would turn up during the summer or fall, due to purchases of those desiring income. The stock market, however, will naturally be very selective. At any time in the stock market there are certain groups that have a more attractive outlook than others. In the bond market the long-term trend is towards rising interest rates resulting in lower bond prices.

International Outlook

During 1948 America's role in the international drama will become more significant, more colorful, more dominant than ever before. The hungry peoples of the world will continue to look to us for help. The weak will depend upon our strength. Management and labor, radicals and conservatives, farmers and industrialists, Republicans and Democrast—all must join forces to secure and maintain a vigorous, healthy economy. Only as long as this nation enjoys good health and harmony, will it serve as a bulwark against communism either abroad or at home.

T. Donald O'Neil With Cohu & Co. in L. A.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — T. Donald O'Neil has become associated with Cohu & Co., 634 South Spring Street. He was formerly manager of the trading department for Morgan & Co. Prior thereto he was with M. H. Lewis & Co. and O'Neil & Co.

T. Donald O'Neil

Richard Eckert Joins John B. Dunbar Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Richard E. Eckert has become associated with John B. Dunbar & Co., 634 South Spring Street. He was formerly with Dean Witter & Co. and prior thereto was an officer of First California Co., Inc.

Kenneth Geissler With Bacon in San Francisco

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Kenneth D. Geissler, member of the San Francisco Stock Exchange, has become associated with Bacon & Co., 256 Montgomery Street, member of the San Francisco and Los Angeles Stock Exchange. Mr. Geissler has been active as an individual broker. Prior thereto he was with Irving Lundborg & Co.

Canadian Securities

By WILLIAM J. McKAY

Throughout history the great advantage of the aggressive dictatorships has always been the inability and unwillingness of the free democracies to unite during the periods of so-called peace. This glaring weakness has always been successfully exploited by the aspirants to world domination.

That great student of history—Winston Churchill—who has constantly demonstrated the faculty of inspired vision in viewing future events, has sought continuously since the war to point out the lessons of history. As a remedial measure he has long advocated a United States of Europe which now, in face of the unmistakable menace of Russian penetration, appears to be well on the way to successful fruition. Another proposal on the highest plane of bold statemanship is the union of the English-speaking peoples of the world.

This daring conception has hitherto been considered merely as an idealistic dream, but what has democratic statesmanship so far offered in its place? The United Nations — practicable only in a world completely united and free from the many defects of human nature—which has merely served as the sounding-board for subversive propaganda and the heated airing of international grievances. The Bretton Woods schemes for currency stabilization and the promotion of world trade which have failed lamentably to attain any of their avowed objectives. The Geneva and Havana trade and tariff conventions, which so far have resulted in agreements in principle only. For example the implementation of the Geneva agreement in theory permits the freeer flow of Canadian exports to this country. In actual practice, however, the operation of the U. S. Customs Act almost completely nullifies the beneficial implications of the Geneva pact.

Thus it is only too clear that these global idealistic attempts to achieve world unity and economic progress are not only fore-doomed to dismal failure but also provide the germinating ground for international dissention. It is obvious in consequence that an entirely fresh approach to the solution of the democratic world's political and economic problem is both essential and overdue. The belated efforts to organize the United States of Europe are constructive but are not fully adequate to meet the gravity of the present situation. If, however, U. S. and British statesmanship would complement this preliminary action by the establishment of a forma U. S.-British Commonwealth military and economic alliance, the Russian menace would be effectively countered.

The combined resources and political power of such a combination would not only deter further Russian penetration but it would also influence the wavering democracies to present a sterner front to communistic infiltration. The vast virgin resources of Canada, Africa, Australia, and India could then be systematically developed by joint U. S.-British capital, the economic consequences of which could lead to an unparalleled era of worldwide prosperity and foreign trade activity.

During the week the external section of the bond market was moderately active as a result of continued Savings Banks' demand for Canadian National Railway issues. The internals after earlier strength weakened slightly in sympathy with a relapse in free funds. The Canadian stock markets rather exceptionally anticipated the decline in New York, but domestic as well as international considerations provided the cause. The feared shelving of the cost-aid bill for the relief of the gold-mining industry led to a sharp decline in the golds which previously had given every promise of leading a rally of the market in general. These fears, however, may very well prove to be without foundation as the Federal Government had recently given serious consideration to the industry's demands for upward revision of the gold subsidies. The delay in presenting the bill before parliament can doubtlessly be ascribed to indecision with regard to its precise form and also to the prior claims of the legislation in connection with the austerity measures.

A. M. Denby Rejoins Staff of Hirsch & Co.

Hirsch & Co., 25 Broad Street, New York City, members of the New York Stock Exchange, announce that Arnold Denby has rejoined the firm in its main office as a registered representative and market technician. He has recently been associated with Kalb, Voorhis & Co.

San Francisco S. E. Changes Trading Hours

SAN FRANCISCO, CALIF.—The San Francisco Stock Exchange announced that upon the adoption of Daylight Saving Time in the State of California on March 14, 1948, the trading session until further notice will open at 8:00 a.m. There will be no change in the closing of 2:30 p.m. daily and 11:00 a.m. on Saturday.

Toronto Bond Traders Hold Annual Dinner

TORONTO, ONT., CANADA—The Toronto Bond Traders Association held its annual dinner on March 12 at the King Edward Hotel. C. Bruce Hill, President of the Canadian Chamber of Commerce, addressed the gathering on "Private Enterprise as I See It."

The Association's invitations were most unusual and amusing, being made up in the form of a prospectus.

Within the Practicalities, Too!

"The world is in the midst of a great crisis, inflamed by propaganda, misunderstanding, anger and fear. At no time has it been so important for cool judgment, for an appeal to one's self for a proper sense of justice, for a realization of conditions, material, political and spiritual, in other parts of the world.

George C. Marshall

"Virtually everything we do in connection with our foreign relations is misunderstood by some abroad. Our most generous motives are suspected, our good intentions are condemned, and we on our side are apt to grow passionate or fearful, overzealous in our passions or failing in action because of our fears.

"In the midst of this turmoil, complicated by the distractions of an election campaign, it is important to express one's feelings on the situation in moderate terms. We should, I think, calmly and prayerfully appraise the facts, so nearly as we can judge them to be the facts, and then search for a firm conclusion in keeping with our sense of justice."—Secretary of State Marshall.

Not only "in keeping with our sense of justice," but also in keeping with our sense of the practicalities of life.

Says High Earnings Represent Only "Statistical Dollars"

Henry H. Heimann, Executive Manager of National Association of Credit Men, warns current profits on dollar basis, represent only half prewar value. Scores attacks on "unusual earnings."

Unusual earnings of American industry are shown in "statistical dollars" which must be discounted by about half to present a true picture, Henry H. Heimann, Executive Manager of the National Association of Credit Men, asserts in his "Monthly Business Review" for March. Management, Mr. Heimann maintains, soon learns that it is operating with fifty-cent dollars whenever it starts a small addition to its plant, attempts to buy new machinery or equipment or add to its man-power.

Henry H. Heimann

as the head of one of the largest business organizations told its members in a careful analysis of the much publicized "unusual earnings" by industry.

"It may be news to the 'business-smearing' evangelists that to do the job that business faced in the conversion and postwar era the first thing it had to do to finance its operations was to sell more than $10 billion worth of government bonds and marketable securities," Mr. Heimann says. "It also may be a shock to know that business, the favorite 'whipping boy' of some politicians, is now expending some $20 billion a year to equip, modernize and reconstruct its productive facilities. The reserves that business built up during the war and in the succeeding two years were in adequate to do its peacetime job, so business has had to borrow heavily to carry through these improvements.

"After business discovered that its savings during the last years, despite huge dollar totals, was inadequate for its needs, it got its second shock. It found it couldn't sell an interest in its business through common stock distributions. The public wasn't too keen about a common stock investment in business at this time. With all of the criticism of business and fresh taxation assaults perhaps the public was right. So business was forced to get three-quarters of all of the money it needed by borrowing from banks, insurance companies or through bond issues. Business might have had to borrow less if during these high earning years it hadn't been threatened for an accounting for added taxes if it failed to pay out in dividends 70% of what it made.

"On the whole, therefore, it seems a blessing that business did share generously in the prosperity, for had it not done so it could never meet its responsibilities today. Indeed when you think of the effect on earnings of a decline in business—a decline inevitably due in time—and its present exceedingly high break-even point, you begin to realize management has no easy job ahead. If you add to the effect of any drop in price on its approximately $42 billion of inventory and possible loss on the realization of its billions of accounts and notes receivable, you begin to wonder whether the statistical wealth of business isn't a mirage that may vanish with the setting business sun.

"If it isn't enough to make you stop, look, and listen, there is always your insatiable, non-productive, absentee partner, the government, which seems to be dissatisfied with a 30 to 40% royalty on your labors and is now clamoring for a larger share. Of course I believe this partner's share would be much less if business used thought and planning in demonstrating to the people working in its shops just how they were being overcharged for government service. I doubt that the average man or woman realizes that it costs more to maintain the Federal Government than it does to buy food. If in addition you take into account the local and state tax bills, you will find that our people are paying $7 billion more in taxes than they pay for their food. Bureaucracy comes very high not alone in its original cost but increasingly so in its upkeep, and of course it is the nearest thing to perpetuity mankind has yet discovered.

"In this year of political campaigns if votes are sought by a rabble-rousing campaign against business, it is well to remember that businessmen, like many other groups, did well statistically during the war years but that the artificial prosperity they enjoyed was no better nor worse than for other economic groups."

Francis I. du Pont & Co. To Admit C. L. Hewitt

Francis I. du Pont & Co., 1 Wall Street, New York City, members of the New York Stock Exchange, will admit Charles L. Hewitt to partnership as of April 1. Mr. Hewitt has been with the firm for some time as manager of the syndicate department.

W. Nelson & Jas. Page With Hannaford & Talbot

(Special to The Financial Chronicle)

SAN FRANCISCO, CALIF.—Walter A. Nelson and James R. Page have become associated with Hannaford & Talbot, 519 California Street. Mr. Nelson was formerly with First California Company and prior thereto conducted his own investment business in San Francisco. Mr. Page was associated with Hill, Richards & Co. and Page, Hubbard & Asche.

Now Noble, Tulk & Co.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—The firm name of Chester L. Noble & Co. has been changed to Noble, Tulk & Co. There has been no change in the partners of the firm.

Pacific Company Adds

(Special to The Financial Chronicle)

PASADENA, CALIF.—Kenneth M. Payne, Jr. is with Pacific Company of California, First Trust Building.

Heithier Russell Now With Ted Weiner & Co.

(Special to The Financial Chronicle)

SAN FRANCISCO, CALIF.—Heithier B. Russell has become associated with Ted Weiner & Co., 41 Sutter Street. In the past he was with Bankamerica Company and Mason Bros.

Realty Values Inflated: Nadler

Speaking before the Eastern Regional Savings and Mortgage Conference of the American Bankers Association in New York City on March 15, Dr. Marcus Nadler, Professor of Finance of New York University, urged bankers to exercise restraint and caution in making real estate loans despite the plentiful supply of mortgage money, and he advised savings bankers to maintain the flexibility of their position by investments in government bonds.

Dr. Marcus Nadler

"Experience has shown that depositors in savings banks are more interested in safety availability, and convenience than in the return received on their savings," Dr. Nadler said. "This attitude of depositors should determine the investment policies of savings banks. The banks should be interested primarily in investment in high-grade securities and sound mortgages. During the war, the larger portion of the funds at the disposal of savings banks was invested in government obligations. Now a shift is taking place into mortgages; and, to a lesser extent, into high-grade corporate obligations.

"The investment policies of savings banks and other institutional investors in mortgages," Dr. Nadler continued, "can have a profound effect not only on the safety of their investments but also on the construction industry and business activity in general. Since real estate prices are highly inflated and the value of many houses, large as well as small, is determined by the great scarcity of dwellings, it is evident that mortgagees must adopt a careful policy. Otherwise they may suffer losses when the pent-up demand for housing has been met and prices of real estate begin to decline. Too liberal lending by institutional mortgagees not only stimulates the upward swing of real estate prices but also contributes to the inflationary forces in the construction industry. Sound policy would therefore indicate that savings banks become more cautious in their lending operations while real estate prices are increasing, and adopt a more liberal attitude when prices are declining and the cost of construction is decreasing. There is no shortage of mortgage money at the present time, and none is likely to develop in the foreseeable future. Institutional lenders have merely become more careful.

"Although many savings banks are concerned over their long-term government obligations, fearing that some time in the future a material break may occur, this fear is not warranted. The monetary authorities seem to be set on maintaining the 2½% rate on long-term government obligations, and only a further serious increase in prices of commodities accompanied by a sharp increase in the volume of bank loans could alter this policy. Such a development, however, is not to be anticipated. Evidence is accumulating that the inflationary boom is gradually coming to an end.

"The last few months have demonstrated clearly that only are government bonds the highest type of security available but also that they enjoy a marketability unrivalled by any other type of security. Savings banks can therefore look upon their long-term government obligations as liquid assets which could almost at any time be converted into cash to be invested in other assets, notably sound mortgages. So long, however, as real estate prices are as inflated as at present, it would seem inadvisable for savings banks to dispose of their long-term government obligations and rush into mortgages without first carefully considering quality, soundness, and amortization. Savings banks are particularly interested in fighting the forces of inflation. Through the adoption of a conservative investment policy, particularly in 1948, they can to some extent help prevent a further increase in prices. They can achieve this aim by stimulating savings now, when the demand for many commodities is greater than the supply and, above all, by a judicious investment of their funds.

Railroad Securities

The status of the securities of those roads that have undergone reorganization was further worsened last week. Directors of Chicago, Milwaukee, St. Paul & Pacific declared a dividend of $4 a share on the 5% preferred stock instead of the prescribed rate of $5. This dividend is payable out of earnings for the year 1947. Last year a single dividend of $2.50 a share was paid out of 1946 earnings, following payment early in the year of $5.00 from 1945 earnings. An initial dividend of $5.00 a share had been paid in May 1946 out of earnings for 1944. Jan. 1, 1944 was the effective date of the reorganization plan.

The erratic timing of dividends for 1944 and 1945 was unavoidable due to delays between the plan's effective date and its consummation and delivery of the new securities. The payment of only $2.50 a share out of 1946 earnings was perhaps excusable on the grounds that net income was only nominally above that level. The latest failure to declare the full dividend, however, is more difficult to understand or condone. Earnings last year, after a generous additions and betterment fund, were in excess of the dividend requirement, amounting to $5.93 a share. Also, the company is in a strong financial position and has already made considerable progress in reducing the conservative debt structure imposed in the reorganization through purchase and retirement of income bonds.

Failure to pay the full preferred dividend has more sweeping implications for St. Paul than it has for other of the reorganized carriers. No dividends may be declared or paid on the common stock unless the full annual dividend of $5.00 a share shall have been paid or provided for on the preferred for the three immediately preceding years. One trouble, and it has been pointed to as a weakness in a number of reorganizations, is that the stockholders have no effective means of expressing their disapproval. All of the preferred and common stock is deposited in a voting trust. This voting trust runs to Dec. 1, 1950. It may be terminated earlier by unanimous action of the voting trustees (an event difficult to imagine) or if the full $5.00 dividend is paid on the preferred for three successive years after Dec. 1, 1945.

Railroad reorganizations were supposed to set up conservative capitalizations. The Commission repeatedly stressed the aim of creating stock capitalizations where they would be at least reasonable assurance of earnings and dividends even on the common stocks during normal periods. Further protection was afforded the new creditors by the creation of additions and betterment funds to take care of future property needs without additional financing, and by the setting up of sinking funds. These funds are all deducted from income before arriving at earnings available for the stock.

There were many people, including some security analysts, who believed that the Commission had been too conservative. In any event, it was generally considered that with all of the safeguards that had been set up through capital funds and sinking funds the stockholders could look forward to receiving in the form of dividends the major portion of the final reported net income. This was particularly true inasmuch as the railroads themselves had consistently stressed the money spent during trusteeship on the properties and the excellent physical condition of the plant. It was felt that after so many years of heavy expenditures the property needs in the post-reorganization years would be considerably modified.

When these preferred stocks were originally set up they attracted a considerable following among investors seeking continuity of income and at least a reasonable degree of price stability, rather than the speculative attributes of a second grade common stock. They have been sorely disappointed on both accounts. With some notable exceptions the directors of the newly reorganized railroads have apparently felt free, even when paying the full dividend, to make the payment on any odd date that suits their fancy and in any number of installments. They seem not to realize, or perhaps they do not care, that these preferred stocks can only assume even a small measure of investment stature when, and if, regular dividends are paid on regular dates.

Deplores Government Competition In Utilities

Frank McLaughlin tells Puget Sound Power & Light shareholders company suffers from subsidies and special privileges given to public power. Says there is no such thing as fair government competition.

Frank McLaughlin, President of the Puget Sound Power & Light Co., in a heart to heart talk with his stockholders, contained in the 1947 annual report of the company, deplores the effect of what he calls "unfair competition established by the government." Said Mr. McLaughlin:

Frank McLaughlin

"To my way of thinking it is not proper for management to paint pictures for the stockholders colored with either personal optimism or pessimism nor to indulge in wishful thinking and false hopes. The natural impulse and desire of the average individual is to be full of hope, to dwell on the good things and to shrink from doing the disagreeable.

"I conceive it to be the definite responsibility of management to be absolutely frank with its stockholders—to give them unbiased and unprejudiced information and facts so that they can intelligently determine the value of their investment—to realistically and objectively appraise the company's problems and its future outlook and to map out a program and determine a policy which best serves their interests regardless of the personal ideologies of directors and officers. It is your money which is at stake and we would be traitorous to our trusteeship if we did not do the things which are necessary to best preserve your investment.

Basic Problems

"When a utility is not permitted to effectively and efficiently function because of unfair competition established by government, as is the case with this company, there inevitably results serious consequences to stockholders, employees and customers alike. Extensive subsidized public power competition has the effect of reducing earning capacity and of making it difficult for the company to maintain financial stability and to attract new capital. The situation becomes more acute under the existing inflationary economy where the wages which the company presently pays and the prices of the materials and supplies which it buys average about 75% higher than those of 1940.

"It is very important for you to fully appreciate that Puget is faced with difficulties and uncertainties due to extensive subsidized public power competition with which the ordinary utility does not have to cope. Therefore, the usual yardsticks for judging utility performance when applied to Puget are not in any way appropriate but in fact misleading. No other electric utility in the country is in a comparable situation to that of Puget.

"The basic problems of Puget are not the result of high rates nor of poor service. For instance the average annual use of Puget Power's domestic customers for the 12 months ended June 30, 1947, was 47% more and the average rate per kilowatt-hour was 8% less than the corresponding averages for domestic customers in the TVA area. Puget's fundamental difficulties are political and have their inception in discriminatory national and state laws which have been enacted over a period of years, giving substantial subsidies and special prvileges to public power."

"There is no such thing as fair government competition," concludes Mr. McLaughlin. "Because of public power's large subsidies and special privileges, which in the case of Puget amount to about 30 cents per dollar of gross revenue, private and public power cannot competitively co-exist. It is unrealistic to talk about preserving private enterprise in the electric power field in a territory where government-owned properties are operating at cost, which cost has been artificially reduced by subsidies, and where all sorts of special privileges and preferences are accorded public agencies. Once government gets its foot in the door in any field of business the snowball starts rolling and the weight and power of government are used to force the expansion of its proprietary business and bit by bit to bring about the eventual demise of its tax paying competitors."

Public Utility Securities

Wisconsin Power & Light

Middle West Corporation controls Wisconsin Power & Light Company through the sub-holding company, North West Utilities Company. Dissolution of the latter company was necessary in order to complete the liquidation of the Middle West System under the Utility Holding Company Act. This proved to be difficult, since North West had three classes of preferred stock outstanding with substantial dividend arrears, and Middle West owned substantial amounts of preferred as well as the common stock. This raised the question of "subordination," the same as in the recapitalization of Central & South West Utilities, and considerable litigation proved necessary before a final plan was approved by the SEC and a Federal Court. North West has now been ordered dissolved, however, and a distribution of Wisconsin Power & Light common stock (virtually the sole asset of North West) will now be made to public holders of the 7% Prior Lien Preferred, the 7% Preferred and to Middle West Corp. Wisconsin P. & L. "when distributed" is quoted in the over-counter market at about 14½.

The Company serves electricity to 318 communities at retail and 24 at wholesale and also sells at wholesale to other utilities and rural cooperatives. About 90% of revenues are electric, 8% gas and 2% miscellaneous. Capital structure as of Feb. 28, 1947 was approximately as follows:

	Millions	%
First mortgage 3¼s due 1971	$30.0	50%
2% Serial Stock	3.3	6%
4½% Pref. Stock	10.0	17%
Com. Stk. (1,280,925 shs.) & surplus	16.4	27%
Totals	$59.7	100%

According to a memorandum on the company prepared by Ira Haupt & Co., the Wisconsin Public Service Commission "worked out a plan whereby the Company would be permitted to earn 6% on the par value of its common stock, but any balance over this amount would be divided 50% to earnings and 50% to a 'Special Reservation of Net Income' in order to amortize the Plant Acquisition Adjustments and Plant Adjustments until these items are fully amortized." In the 12 months ended Sept. 30, 1947 earnings of $1.87 a share were reported on the common stock compared with $1.77 in the previous period.

Some time ago the company filed an estimate of future earnings with the SEC, with the following estimated results per share on the common stock:

Year	Before Special Amort.	After Special Amort.
1947	$1.97	$1.29
1948	2.11	1.36
1949	2.21	1.41
1950	2.29	1.45
1951	2.50	2.13
1952	2.83	---

Earnings for 1947, so far as indicated by the September figures, appear to be slightly below the official forecast. Moreover, the company has recently issued some new bonds and preferred stock to provide for construction funds ($3,000,000 first 3⅛s due 1978 and $3 000.000 of 4.80% preferred). This would appear to make it slightly difficult, at least for the time being, to earn $1.12 a share after plant amortization. However, it looks as though the present market price is based on the expectation of a $1.12 dividend rate, which would return a yield of 7¾%—about in line with new-issue yields.

News About Banks and Bankers

(Continued from page 21)

be more than 50% above the market price of your stock prevailing just prior to these negotiations."

* * *

On March 15 the world's most modern wire communications system linked 20 banks in 16 cities in a private nationwide network established by **Bankers Trust Company, New York**, which utilizes equipment culminating 13 years of development by Western Union engineers. According to the announcement from the trust company, streamlined to the point where push buttons re-route and re-transmit messages at two switching centers in New York and Chicago to any other terminal point in the nation, the new system does not require additional manual handling after the original message has been transmitted by a teleprinter "sender-receiver" at the point of origin. In part the announcement also said:

"The system, comprising more than 5,000 circuit miles, officially placed in operation on March 15 when S. Sloan Colt, President of Bankers Trust Company, sent message 'Number 1' to the heads of the 19 other banks throughout the country. In sending the first message, Mr. Colt pressed buttons which routed the message to Chicago for switching to western and southwestern points, and other buttons here which directed the message to eastern terminals. The message dispatched by Mr. Colt follows:

"Officially opening our private wire system I send you cordial greetings and welcome you into the family of banks that will use this new and modern means of interbank communication. I feel confident that this new facility will result in a closer relationship among all of us and enable us to serve both our customers and each other more efficiently. With the pressing of a button I send this message to you with my warmest personal regards.'"

Mr. Colt was joined in the ceremonies and at the press inspection by Charles E. Davies, Assistant Vice-President, in charge of Private Wire Services; Alexander Simon, General Manager and Trescott A. Buell, lower Manhattan Superintendent, Western Union. The new system, developed and installed by Western Union, has been under construction for the past six months and with it goes the establishment of a Chicago wire center of Bankers Trust Company. The latter will continue to maintain its regular cable department. The new wire system is under the direction of the Banking Department.

* * *

On March 17 plans for a merger of the Bank of New York and the Fifth Avenue Bank of New York were ratified by the respective boards of trustees and directors. Stockholders of the two banks will vote on the proposal on April 15.

John C. Traphagen, President of the **Bank of New York**, and John I. Downey, President of **The Fifth Avenue Bank**, made the following joint statement on March 10 with the approval of their re-

spective Boards of Trustees and Directors:

"A merger of the two banks has been informally agreed upon. The basis of merger will be one share of stock in the merged bank for one share of stock of the Bank of New York, and four shares of stock of the merged bank for each share of stock of The Fifth Avenue Bank. The name of the merged institution will be Bank of New York-Fifth Avenue Bank. The Board of Trustees will be composed of persons from the respective Boards of Trustees and Directors. A formal merger agreement is being drafted and will be submitted within the next few days to the Boards of the two institutions. Upon approval it will be submitted for final ratification to the stockholders of both banks and to the New York State Superintendent of Banks.

"It is believed that this merger of two of New York's oldest and most distinguished banking institutions will be advantageous to customers and stockholders of both banks. The operation of offices in the downtown financial district and in the heart of the midtown section will provide a broader base for business and permit the enlargement of the services offered by the combined institution. Present personnel and customer relations will not be disturbed."

* * *

DeCoursey Fales, President of **The Bank for Savings in the City of New York**, announces the appointment of William C. McCrea as Assistant Treasurer and Charles F. Chamberlain as Assistant Comptroller. Mr. McCrae has been in the bank's employ since 1932 and Mr. Chamberlain since 1931.

* * *

William J. Gilpin, formerly Manager of the **New York Clearing House** died at his home in New York on March 14. Mr. Gilpin, a native of this city, retired from the post as manager in 1926, after serving the Association for 49 years. Entering the employ of the Clearing House as a junior clerk in 1877, he became assistant manager in 1892 and manager in 1916. At his death Mr. Gilpin was 87 years of age.

* * *

The liquidation of the affairs of the **World Exchange Bank of New York** has been completed by the New York Superintendent of Banks, it was announced on March 3 by the State Banking Department.

* * *

Harold I. Cross has been elected a trustee of the **Queens County Savings Bank of Flushing, Long Island.** Mr. Cross heads the Harold I. Cross Company, mortgage loan correspondents, in Jamaica, N. Y.

* * *

A "Shop at Home" campaign, sponsored by the **Peninsula National Bank of Cedarhurst, Long Island, N. Y.** and encompassing the five communities—Cedarhurst, Lawrence, Hewlett, Inwood and Woodmere — which the bank serves, has produced "good results" in the first two months of operation, according to the bank's officers. The drive will continue throughout 1948. The campaign theme, "Shop in the Five Towns," had a triple-edged launching. Simultaneously, the bank announced the drive in local newspaper advertisements, released a news story containing a statement by the President, Charles J. Machleid, and unveiled a large outdoor billboard. This ten-color poster, situated at the intersection of two main traffic arteries in Hewlett, shows five women "picketers" holding placards, each bearing one word, reading from left to right, "Shop in the Five Towns."

Exports, Imports and Dollars

By A. M. STRONG*

Vice-President, American National Bank & Trust Co. of Chicago

Mr. Strong points out, despite cloudy foreign monetary picture and foreign controls, world needs our goods, and volume of foreign trade in 1948 may equal that of past year. Estimates 1948 U. S. foreign trade will reach $28 billion. Holds unless we increase our purchases abroad, our entire foreign trade will deteriorate.

International business, like any other business, depends upon two basic factors—the need for the goods and the availability of money. The first factor is very much in evidence. There is an urgent need throughout the world for our raw materials, industrial and farm machinery, transportation equipment, consumers' goods and foodstuffs. The shortages created through the diversion of industrial facilities to war production during the war years and the needs created by the reconstruction of devastated areas assure a demand for our goods for years to come.

A. M. Strong

The monetary aspects of our foreign trade however, represent a cloudy picture. In the decade before the war international business was conducted on the same basis as any other business. Foreign nations purchased from us to the extent of their ability to pay. They sold us their goods and services and used the dollars to buy our goods and services. They expanded their industries with their own capital and with American private investments. During the prewar period, 1931-1940, our total exports in goods and services approximately equalled our imports. The picture completely changed after the war. In 1946 our exports of goods and services amounted to $15.2 billion. Only $7.1 billion was paid for through imports, leaving a deficit of $8.1 billion. In 1947 our total exports amounted to $19.6 billion. Only $8.3 billion was paid for through imports, creating a deficit of $11.3 billion. The total export deficit for the two years was $19.4 billion.

The deficit was largely covered by government grants and loans. In these two years such loans and grants amounted to $11 billion. The balance of the deficit was financed by the liquidation of foreign gold and dollar assets, capital investments, and remittances and other payments.

The disequilibrium in our foreign trade is largely caused by the pent up demand for goods that were not produced during the war years, by the reconstruction needs, by the failure of foreign countries to correspondingly increase their imports to us and by a considerable increase in prices. The deficit may be reduced and eventually eliminated by a reduction in foreign purchases, an increase in the use of foreign gold and dollar assets, an increase in loans and gifts, and an increase in our imports.

World Needs Our Goods

Most nations have taken steps to curtail their purchases here by tightening their import controls. Nevertheless, the volume of our 1947 exports indicates the ineffectiveness of their measures. The world is still in great need of our goods.

An accelerated use of dollar and gold reserves by foreign countries was manifested in 1947. This has certain beneficial aspects. When a country is compelled to use its own gold and dollars rather than use other people's money, it will seriously look for ways and means to remedy the situation. Foreign-owned liquid assets in the United States are rather large. However, these assets are not evenly distributed. At the end of June, 1947, the gold and short-term dollar resources of all foreign countries amounted to about $19 billion. This figure does not include unreported gold and certain investments. These funds were divided as follows:

(Amount in millions)

Area	
Europe, excepting sterling area	$9,313
British Commonwealth & other sterling areas	5,055
Asia	1,680
Latin-America	3,278
Total	$19,326

During the period of reconstruction many countries, particularly those in the European war area, have been and are still in need of assistance. We have extended substantial aid since the end of the war and we now contemplate an aid program of $17 billion to Western Europe and substantial grants to other countries. The sum which is now being asked of Congress for the next 15 months, from April, 1948, to the end of June, 1949, is 9 billion 333 million dollars, as follows: European Recovery Program, 6.8; occupied areas, 1.4; other countries, including China, 1.133 million.

Foreign Aid Program

The foreign aid program will require great sacrifices on our part. Let us hope that any aid granted will assist the recipient nations in their reconstruction and will put them back on their feet so that after a given period they will become independent and self-sustaining. Our country cannot continue indefinitely to finance our export deficit by loans and gifts. We cannot overlook the simple truth that trading means exchanging value for value. We can receive value for value only through increased imports, and through sound investments.

During the past fifty years, we have concentrated on selling our products to other nations. We have paid little attention to imports and our import trade grew up without assistance or encouragement. As a matter of fact, we have done our utmost to discourage imports. Neither have other countries been active in promoting their sales to us in the same manner as we promoted our sales to them. Few foreign firms advertise their products in the United States. Our overseas visitors are mostly buyers. Very few come to sell here.

The foreign trade activities of our Department of Commerce, as well as of other government agencies, are geared to our exporters' needs. Little attention is paid to the needs of importers. There are hundreds of foreign trade organizations in the United States set up to assist exporters; few assist importers. This situation must change; we must give serious consideration to imports. It is becoming apparent that unless we considerably increase our purchases abroad our entire foreign trade will eventually deteriorate.

Accelerating Imports

Our import trade can be accelerated by the following program:

(1) The United States Department of Commerce must place imports on the same level as exports and render active assistance to importers.

(2) The Department of State must assist through our Foreign Service in the promotion of imports.

(3) An educational campaign should be undertaken by every foreign trade organization in the U. S. to stress the importance of imports, particularly the stake of our exporters in import trade.

(4) Our government must suggest to other nations that the normal and lasting way to obtain dollars for their needs here is by promoting their sales to us with the same vigor that we promote our sales to them.

Foreign trade is now dependent upon financial arrangements between governments, and is affected by official and unofficial values of foreign currencies, and export-import controls. Of the 141 trading countries and territories, only eight small countries are free from foreign trade controls and restrictions. These controls cannot be totally attributed to economic needs.

Notwithstanding these obstacles and controls, our foreign business is now one of our largest enterprises. 1947 was a record year and we can look forward to as good a business in 1948. Our sales to other nations depend mainly upon the supply of dollars abroad and it may be estimated that approximately $19.5 billion will be available to foreign countries in 1948 for their purchases of goods and services in the U. S., as follows: Our total imports will probably amount to $8.5 billion; the European Recovery Program and other government loans and grants will provide about $7 billion; remittances, private investments, and loans by the International Bank and Monetary Fund will provide about $2 billion; and other countries will probably use their gold and dollar reserves to the extent of $2 billion. The total of our 1948 exports and imports of goods and services may, therefore, reach $28 billion.

*From an address by Mr. Strong at meeting sponsored by World Trade Committee, Indianapolis Chamber of Commerce, Indianapolis, Ind., March 16, 1948.

Three Critical Situations in Our Economy

(Continued from first page)

same time we have had about a doubling of the gross prices which are paid for the services of people who work on hourly wages. Then again, consider the differences which have been brought about between the incomes of people who live on fixed incomes and those who derive their funds from current effort. The people who live on fixed incomes are deeply disturbed and are reluctant to spend and invest of their money today.

We are all aware of the fact that farm prices or the prices paid for farm products have been increased much more than the prices paid for the services of salaried people, even wage-earners, and in particular, say, the price paid in the form of rent for the privilege of occupying dwelling space. Consider the present price-value judgments or attitudes of the typical house owner, who invested his money in residential construction to be rented in the thirties, when he considers the subject of how much he pays for his food, an auto or clothing today in relation to how much he receives for renting his house.

Now some may say that the farmer did not make enough money before the war and others may also say that the landlord charged too high a rental before the war, but I am not taking such matters into consideration. I am simply taking into consideration the attitudes of these people—these individuals—in regard to the prices which they pay and receive. What do you think the attitude on their parts is toward their expenditures, their investments, and their incomes?

It may be observed that there are great differences between different raw material prices brought about by the uneven rise in prices. Some raw materials are exceedingly high relative to the prices of other raw materials as measured by past relationships. In my office we calculate the disparity between raw material prices on a monthly basis since before War I. One of the factors which we use in judging whether or not the price system is unstable is the amount of difference that is being developed between different raw material prices. We use the prices of such things as hides, scrap steel, grain, sugar, etc. At no time in this century has there been so much disparity between the prices of different raw materials as is the case today. This is indicative of a maladjusted and distorted price system and the existence of confused price-value judgments.

The break which has occurred in farm prices is a first and important step in a readjustment of our price system. The farm prices, as a group, were the prices above all others which were most out of line with what might be considered a stable relationship to other prices. It has been quite interesting to note that these, being the most extended prices, have been the first to be reversed in a rather dramatic manner. Possibly the recent break in the price of agricultural products is the first harbinger of a period in which many prices will be readjusted. In 1920 the break in the price of agricultural products preceded the break in the general price level by several months, and it would not be unique if we were experiencing about the same general kind of pattern this year. We have a large number of extremely unstable prices today, and the rapidity with which the rise in agricultural prices was reversed is most significant of developments. It is indicative of price instability as well as evidence of price disparity.

Another result of the disorganization of our price system has been the confusion of the arithmetic of business accounting. I defy most businessmen today to tell me how much profit they have been making, because I am certain they don't know.

Last week I was discussing the effects of the inflation in Germany on the accounting system with a German economist who lived through that experience. He said it was his opinion that the price level in Germany had been increased by some 200% before the businessmen caught on to the fact that they were giving away their capital equipment. I think it is interesting to comment on the fact that our business managers began to catch on to the fact that they were giving away their capital equipment when the price of capital equipment had been only doubled. It costs at least twice as much to replace capital equipment today as it did to buy the capital equipment before the war; and, although many of our accountants say that machinery and equipment which we buy today is more productive than machinery which we are consuming or using up, nevertheless, the investor—the man who puts his money into the hands of a manager—expects the manager to obtain for him a sum of money or capital which will buy as much in terms of goods and services as the money which he originally invested. When we have experienced a dilution of the money supply, the manager of a business must increase depreciation charges to reflect currency dilution, or otherwise he is giving the capital assets owned by the investors away.

Fooling Ourselves On Profits

In addition, we are fooling ourselves once again by enlarging our profits as a result of inventory accounting. Out of the $17 billion of corporate profits which were reported for last year by the Department of Commerce, $5.2 billion of that $17 billion consisted of what is called "inventory revaluation." It is common accounting practice to calculate the cost of production over a year by taking the inventory at the beginning of the year, adding to it the cost of things purchased during the year, and subtracting from that total the dollar value of inventories at the end of the year, appraised at the lower of cost or market price. You may readily see that if inventory prices at the end of the year are higher than inventory prices at the beginning of the year, the calculation of net costs will be reduced by the amount by which prices paid were increased. As a result of this procedure in accounting, the Department of Commerce has estimated that $5.2 billion of reported earnings consisted of that kind of profit. In England managers would not be permitted to call that a profit. Companies which use Lifo accounting do not report that kind of profit. But there are enough companies who do report that kind of profit to raise corporate earnings reported by some $5.2 billion. Now that kind of profit cannot be spent; it cannot be paid out in dividends; it cannot be used for purchasing capital equipment; it cannot be used for financing additional inventories; and it cannot be used to finance accounts receivable. In fact, it cannot be used, and it really isn't profit. It should be isolated as a reserve but ordinarily it isn't, with the result that numerous managers and investors are kidding themselves concerning how much money they are making, because the accounting systems which they are using are not adequate to cope with the kind of changes which are taking place in our price system due to a dilution of our money supply.

I have said that we have experienced an inflation of our money supply which has resulted in an increase in prices; that the combined increase in prices and production has been large enough so that we have some reason to think that we may be at a turning point in the rise in production and prices which might be proved to be a temporary ceiling in the volume of production and a temporary high in prices. I have also said that at this point in the inflationary process we may observe all manner of price disorganization in our economy. In this kind of a situation, a businessman would be well warranted in keeping an eagle eye on the movement of goods in retail trade. For, if retail trade is reduced significantly, it means that large numbers of people are deferring expenditure for consumption; and, if large numbers of people do that in the situation we are in now, we are certainly going to have a reduction of business activity and in trade and will experience a deflationary spiral of some kind or other.

Business Capital Investment

The second critical factor of major importance which I am going to mention is the subject of business investment. When I use the term "business investment," I refer to the investment of non-agricultural business in plant and equipment which is not charged to expense in the current year. Certain businessmen purchase dies, loose tools, and other items of equipment which they amortize in the course of one year. I am not going to call the purchase of this kind of asset "investment." I am talking about the expenditure by enterprise management for plant and equipment, not farm machinery and equipment, but simply what we ordinarily think of when we refer to factories, offices, stores, warehouses, machinery, etc.

Last year business investment in plant and equipment probably was somewhat low. Now that sounds like a surprising statement because we frequently are told that business investment in plant and equipment was high. The investment by farmers in agricultural machinery and equipment was high and apparently there was an enormous amount of loose tools and equipment bought in this country, so the total of business investment, including farm investment and investment in loose tools and equipment seemed to be classifiable as "high." But business investment of the type to which I refer was only about 7.8% of national income. In a well-balanced year, such as 1925—and I use this period because I think in 1925 we had not yet developed the excesses of the late '20's—this kind of business investment was about 10% of national income. So in 1947, despite the fact that we thought that our business investment was so high, we actually spent less of our national production for plant and equipment, excluding farm investment, of course, than was the case in 1925 and a much lower amount than is the case when business investment really is high.

Now I have an idea that we are not going to continue this current level of business investment in plant and equipment despite the fact that it has not been high relative to income. Last year we spent some $15 to $16 billion, as closely as we can tell. I doubt if we spend that much in the year 1948. In the first place, as I said, businessmen have not been making as much money as they thought. Last year, out of the $17 billion of corporate profits, $6.6 billion were spent in the form of dividends, leaving $10.4 billion. Of that $10.4 billion, $5.2 billion were locked up in inventories by the rise in prices; so if we deduct that $5.2 billion, we would have $5.2 billion left. All corporate depreciation totalled $4.8 billion; and, if we double the depreciation on plant and equipment which existed before 1940, we would deduct approximately another $3 billion; in other words, it is going to take business management about $3 billion more than they charged for in their depreciation to obtain enough money to replace plant and equipment or to obtain enough capital so that the owners of the enterprises will be getting funds equal in exchange value to the funds which they invested. If we take another $3 billion dollars from the $5.2 billion of undistributed corporate profits that remained, we have only $2.2 billion left or available for addition to surplus.

So, the $17 billion of corporation profits which seemed to be so exceptionally large, only provided possibly $2 billion for additional investment in new plant and equipment plus the amount obtained from corrected depreciation charges. These calculations lead to the conclusion that corporations probably cannot finance a continuation of the current low level of investment in plant and equipment from internal sources of funds. It is apparent that the level of business investment in plant and equipment which we experienced last year was financed from internal sources; from term loans which had been made by the banks in 1946 and 1947 and which the banks are no longer making in large quantities; from the sale of obligations; and from savings accumulated during the war periods. But the source of funds for the term loans is ending; internal sources are no adequate; the savings of the war periods are being spent; and the equity markets are anything but a reliable source of capital.

In 1925, incorporated business in this country raised sums equal to 47½% of the money which was used to purchase new plant and equipment in the security markets. Now I am not talking about 1928 or 1929 when from 60% to 80% of the money was raised by means of security flotations; I am talking about 1925. In 1947 the new issues were equal to about 30% of the money invested; and, in order to raise that amount of new capital, the addition to the supply of securities apparently was enough to reduce prices in the equity market.

In 1925 an amount equal to 4.7% of the national income was invested in new securities; in 1947, despite the fact that we issued so many securities that we increased the supply of these relative to demand and pushed the price down, we issued new securities equal to only 2.3% of the national income. This was just about one-half of the relationship of security issues to national income which we experienced in 1925.

From these figures I would deduce a number of things. First, I would say that the effects of progressive taxation in combination with the increase in prices indicate a situation in which people in the middle and higher income brackets are no longer saving enough from their current income to provide sufficient new capital to permit maintenance of the current rate of investment in plant and equipment. I would arrive at this deduction by observing the trend of prices in the stock market. In addition one may use personal observation of what people one knows who have salaries of more than $5,000 per year are doing with the money which they earn.

In addition, it is interesting to note that the progressive tax rates which are being used to siphon money from the hands of those people who might invest in plant and equipment are also being used to direct money into the hands of those people who employ the funds to enlarge the demand for consumption goods. In other words, the money or income which used to be used to enlarge plant and capacity is now being diverted into the hands of people who use it for consumptio[n pur]poses. This is not inflat[ionary] but this situation is one in [which] prices are disorganized a[nd in]creased.

Shortage of Equities

Please note that I have n[ot said] that there is a shortage of [savings] in the aggregate. One c[an see] evidence of large savings [in] accumulation today. These are invested in life insuranc[e com]panies and are available i[n in]vestment, but this kind of s[aving] is not available for investm[ent in] equities. We do not have a [short]age of capital, but we do h[ave a] shortage of equity capital. [The] difference is important b[ecause] many businesses cannot us[e bor]rowed money. One reaso[n why] we had such a deep and pro[longed] depression in 1930, 1931, a[nd 1932] was that the managers of businesses went so far in [debt in] the 1920s. Consequently, they tried to pay off [their in]debtedness, they had to [reduce] their current investment [and] other expenditure to such [a] level that it was difficult [to main]tain the bottom of the r[ecession] in production and price[s. Un]fortunately, the managers [of] business enterprises are be[ing en]couraged to do exactly th[e same] thing all over again. Th[is situa]tion does not presage pr[osperity] over the long-term by an[y man]ner of means.

At this point I would [like to] recapitulate by saying th[at there] is evidence of a pressing [need] for equity capital, that [there is] a deficiency in the fund[s avail]able for investment in pl[ant and] equipment from the inter[nal cor]porate sources of funds, th[at there] is deficiency in saving [in the] hands of people who mig[ht put] their money in equities [and] the prime cause of this d[eficiency] seems to be progressive [taxation.] In consequence, I would [say] that it is probable that [business] investment in plant an[d equip]ment is going to be reduced. [There] are some exceptions to th[is state]ment. I am talking about [the] over total or the aggrega[te. The] exceptions are the railro[ads, the] utilities, the oil indust[ry, steel] industry and some oth[er] managers of some of the [consumer] goods and service industri[es prob]ably are going to continue [to] increase their investment [in plant] and equipment. In so[me cases] these are industries in wh[ich cap]ital obtained by selling [bonds can] be used. In other insta[nces the] expansion is of such a n[ature that] when once it is started it [is] difficult to stop.

The Banking Situati[on]

The third critical facto[r which] I will mention is a situatio[n which] is being developed in the [banking] system. We have hea[rd much] about the tightening o[f credit] supposedly brought abou[t by the] monetary authorities. As [a ac]tual matter of fact, the [demand] for new capital by the [managers] of business enterprise [and the] public officials of the s[tate and] local governments has [been so] great that they have bid [up inter]est rates in order to ge[t funds.] Consequently, the yield[s on cor]porate obligations and l[ocal gov]ernment obligations have [in]creased to the point whe[re bank]ers began to sell governm[ents] in order to buy the oblig[ations of] state and local governme[nts and] corporations. As a result, [the Fed]eral Reserve authoriti[es were] forced to support the m[arket for] government obligations. [But] I would say that the Res[erve au]thorities have not taken t[he initia]tive; they have done w[hat they] thought was necessary i[n view of] the action taken by ne[w borrowers] wanted to acquire capit[al. Prob]ably the Reserve author[ities have] done little other than t[o keep] interest rates on govern[ment ob]ligations from being [increased] substantially.

We are also being told [that the] fiscal operations of the

Within the Practicalities, Too!

"The world is in the midst of a great crisis, inflamed by propaganda, misunderstanding, anger and fear. At no time has it been so important for cool judgment, for an appeal to one's self for a proper sense of justice, for a realization of conditions, material, political and spiritual, in other parts of the world.

George C. Marshall

"Virtually everything we do in connection with our foreign relations is misunderstood by some abroad. Our most generous motives are suspected, our good intentions are condemned, and we on our side are apt to grow passionate or fearful, overzealous in our passions or failing in action because of our fears.

"In the midst of this turmoil, complicated by the distractions of an election campaign, it is important to express one's feelings on the situation in moderate terms. We should, I think, calmly and prayerfully appraise the facts, so nearly as we can judge them to be the facts, and then search for a firm conclusion in keeping with our sense of justice."—Secretary of State Marshall.

Not only "in keeping with our sense of justice," but also in keeping with our sense of the practicalities of life.

Says High Earnings Represent Only "Statistical Dollars"

Henry H. Heimann, Executive Manager of National Association of Credit Men, warns current profits on dollar basis, represent only half prewar value. Scores attacks on "unusual earnings."

Unusual earnings of American industry are shown in "statistical dollars" which must be discounted by about half to present a true picture, Henry H. Heimann, Executive Manager of the National Association of Credit Men, asserts in his "Monthly Business Review" for March. Management, Mr. Heimann maintains, soon learns that it is operating with fifty-cent dollars whenever it starts a small addition to its plant, attempts to buy new machinery or equipment or add to its man-power.

Henry H. Heimann

As the head of one of the largest business organizations told its members in a careful analysis of the much publicized "unusual earnings" by industry.

"It may be news to the 'business-smearing' evangelists that to do the job that business faced in the conversion and postwar era the first thing it had to do to finance its operations was to sell more than $10 billion worth of government bonds and marketable securities," Mr. Heimann says. "It also may be a shock to know that business, the favorite 'whipping boy' of some politicians, is now expending some $20 billion a year to equip, modernize and reconstruct its productive facilities. The reserves that business built up during the war and in the succeeding two years were in adequate to do its peacetime job, so business has had to borrow heavily to carry through these improvements.

"After business discovered that its savings during the last years, despite huge dollar totals, was inadequate for its needs, it got its second shock. It found it couldn't sell an interest in its business through common stock distributions. The public wasn't too keen about a common stock investment in business at this time. With all of the criticism of business and fresh taxation assaults perhaps the public was right. So business was forced to get three-quarters of all of the money it needed by borrowing from banks, insurance companies or through bond issues. Business might have had to borrow less if during these high earning years it hadn't been threatened for an accounting for added taxes if it failed to pay out in dividends 70% of what it made.

"On the whole, therefore, it seems a blessing that business did share generously in the prosperity, for had it not done so it could never meet its responsibilities today. Indeed when you think of the effect on earnings of a decline in business—a decline inevitably due in time—and its present exceedingly high break-even point, you begin to realize management has no easy job ahead. If you add to the effect of any drop in price on its approximately $42 billion of inventory and possible loss on the realization of its billions of accounts and notes receivable, you begin to wonder whether the statistical wealth of business isn't a mirage that may vanish with the setting business sun.

"If it isn't enough to make you stop, look, and listen, there is always your insatiable, non-productive, absentee partner, the government, which seems to be dissatisfied with a 30 to 40% royalty on your labors and is now clamoring for a larger share. Of course I believe this partner's share would be much less if business used thought and planning in demonstrating to the people working in its shops just how they were being overcharged for government service. I doubt that the average man or woman realizes that it costs more to maintain the Federal Government than it does to buy food. If in addition you take into account the local and state tax bills, you will find that our people are paying $7 billion more in taxes than they pay for their food. Bureaucracy comes very high not alone in its original cost but increasingly so in its upkeep, and of course it is the nearest thing to perpetuity mankind has yet discovered.

"In this year of political campaigns if votes are sought by a rabble-rousing campaign against business, it is well to remember that businessmen, like many other groups, did well statistically during the war years but that the artificial prosperity they enjoyed was no better nor worse than for other economic groups."

Francis I. du Pont & Co. To Admit C. L. Hewitt

Francis I. du Pont & Co., 1 Wall Street, New York City, members of the New York Stock Exchange, will admit Charles L. Hewitt to partnership as of April 1. Mr. Hewitt has been with the firm for some time as manager of the syndicate department.

W. Nelson & Jas. Page With Hannaford & Talbot

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Walter A. Nelson and James R. Page have become associated with Hannaford & Talbot, 519 California Street. Mr. Nelson was formerly with First California Company and prior thereto conducted his own investment business in San Francisco. Mr. Page was associated with Hill, Richards & Co. and Page, Hubbard & Asche.

Now Noble, Tulk & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—The firm name of Chester L. Noble & Co. has been changed to Noble, Tulk & Co. There has been no change in the partners of the firm.

Pacific Company Adds

(Special to THE FINANCIAL CHRONICLE)

PASADENA, CALIF.—Kenneth M. Payne, Jr. is with Pacific Company of California, First Trust Building.

Heithier Russell Now With Ted Weiner & Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Heithier B. Russell has become associated with Ted Weiner & Co., 41 Sutter Street. In the past he was with Bankamerica Company and Mason Bros.

Realty Values Inflated: Nadler

Speaking before the Eastern Regional Savings and Mortgage Conference of the American Bankers Association in New York City on March 15, Dr. Marcus Nadler, Professor of Finance of New York University, urged bankers to exercise restraint and caution in making real estate loans, despite the plentiful supply of mortgage money, and he advised savings bankers to maintain the flexibility of their position by investments in government bonds.

Dr. Marcus Nadler

"Experience has shown that depositors in savings banks are more interested in safety, availability, and convenience than in the return received on their savings," Dr. Nadler said. "This attitude of depositors should determine the investment policies of savings banks. The banks should be interested primarily in investment in high-grade securities and sound mortgages. During the war, the larger portion of the funds at the disposal of savings banks was invested in government obligations. Now a shift is taking place into mortgages; and, to a lesser extent, into high-grade corporate obligations.

"The investment policies of savings banks and other institutional investors in mortgages," Dr. Nadler continued, "can have a profound effect not only on the safety of their investments but also on the construction industry and business activity in general. Since real estate prices are highly inflated and the value of many houses, large as well as small, is determined by the great scarcity of dwellings, it is evident that mortgagees must adopt a careful policy. Otherwise they may suffer losses when the pent-up demand for housing has been met and prices of real estate begin to decline. Too liberal lending by institutional mortgagees not only stimulates the upward swing of real estate prices but also contributes to the inflationary forces in the construction industry. Sound policy would therefore indicate that savings banks become more cautious in their lending operations while real estate prices are increasing, and adopt a more liberal attitude when prices are declining and the cost of construction is decreasing. There is no shortage of mortgage money at the present time, and none is likely to develop in the foreseeable future. Institutional lenders have merely become more careful.

"Although many savings banks are concerned over their long-term government obligations, fearing that some time in the future a material break may occur, this fear is not warranted. The monetary authorities seem to be set on maintaining the 2½% rate on long-term government obligations, and only a further serious increase in prices of commodities accompanied by a sharp increase in the volume of bank loans could alter this policy. Such a development, however, is not to be anticipated. Evidence is accumulating that the inflationary boom is gradually coming to an end.

"The last few months have demonstrated clearly that only are government bonds the highest type of security available but also that they enjoy a marketability unrivalled by any other type of security. Savings banks can therefore look upon their long-term government obligations as liquid assets which could almost at any time be converted into cash to be invested in other assets, notably sound mortgages. So long, however, as real estate prices are as inflated as at present, it would seem inadvisable for savings banks to dispose of their long-term government obligations and rush into mortgages without first carefully considering quality, soundness, and amortization. Savings banks are particularly interested in fighting the forces of inflation. Through the adoption of a conservative investment policy, particularly in 1948, they can to some extent help prevent a further increase in prices. They can achieve this aim by stimulating savings now, when the demand for many commodities is greater than the supply and, above all, by a judicious investment of their funds.

Railroad Securities

The status of the securities of those roads that have undergone reorganization was further worsened last week. Directors of Chicago, Milwaukee, St. Paul & Pacific declared a dividend of $4 a share on the 5% preferred stock instead of the prescribed rate of $5. This dividend is payable out of earnings for the year 1947. Last year a single dividend of $2.50 a share was paid out of 1946 earnings, following payment early in the year of $5.00 from 1945 earnings. An initial dividend of $5.00 a share had been paid in May 1946 out of earnings for 1944. Jan. 1, 1944 was the effective date of the reorganization plan.

The erratic timing of dividends for 1944 and 1945 was unavoidable due to delays between the plan's effective date and its consummation and delivery of the new securities. The payment of only $2.50 a share out of 1946 earnings was perhaps excusable on the grounds that net income was only nominally above that level. The latest failure to declare the full dividend, however, is more difficult to understand or condone. Earnings last year, after a generous additions and betterment fund, were in excess of the dividend requirement, amounting to $5.93 a share. Also, the company is in a strong financial position and has already made considerable progress in reducing the conservative debt structure imposed in the reorganization through purchase and retirement of income bonds.

Failure to pay the full preferred dividend has more sweeping implications for St. Paul than it has for other of the reorganized carriers. No dividends may be declared or paid on the common stock unless the full annual dividend of $5.00 a share shall have been paid or provided for on the preferred for the three immediately preceding years. One trouble, and it has been pointed to as a weakness in a number of reorganizations, is that the stockholders have no effective means of expressing their disapproval. All of the preferred and common stock is deposited in a voting trust. This voting trust runs to Dec. 1, 1950. It may be terminated earlier by unanimous action of the voting trustees (an event difficult to imagine) or if the full $5.00 dividend is paid on the preferred for three successive years after Dec. 1, 1945.

Railroad reorganizations were supposed to set up conservative capitalizations. The Commission repeatedly stressed the aim of creating stock capitalizations where they would be at least reasonable assurance of earnings and dividends even on the common stocks during normal periods. Further protection was afforded the new creditors by the creation of additions and betterment funds to take care of future property needs without additional financing, and by the setting up of sinking funds. These funds are all deducted from income before arriving at earnings available for the stock.

There were many people, including some security analysts, who believed that the Commission had been too conservative. In any event, it was generally considered that with all of the safeguards that had been set up through capital funds and sinking funds the stockholders could look forward to receiving in the form of dividends the major portion of the final reported net income. This was particularly true inasmuch as the railroads themselves had consistently stressed the money spent during trusteeship on the properties and the excellent physical condition of the plant. It was felt that after so many years of heavy expenditures the property needs in the post-reorganization years would be considerably modified.

When these preferred stocks were originally set up they attracted a considerable following among investors seeking continuity of income and at least a reasonable degree of price stability, rather than the speculative attributes of a second grade common stock. They have been sorely disappointed on both accounts. With some notable exceptions the directors of the newly reorganized railroads have apparently felt free, even when paying the full dividend, to make the payment on any odd date that suits their fancy and in any number of instalments. They seem not to realize, or perhaps they do not care, that these preferred stocks can only assume even a small measure of investment stature when, and if, regular dividends are paid on regular dates.

Deplores Government Competition In Utilities

Frank McLaughlin tells Puget Sound Power & Light shareholders company suffers from subsidies and special privileges given to public power. Says there is no such thing as fair government competition.

Frank McLaughlin, President of the Puget Sound Power & Light Co., in a heart to heart talk with his stockholders, contained in the 1947 annual report of the company, deplores the effect of what he calls "unfair competition established by the government." Said Mr. McLaughlin:

Frank McLaughlin

"To my way of thinking it is not proper for management to paint pictures for the stockholders colored with either personal optimism or pessimism nor to indulge in wishful thinking and false hopes. The natural impulse and desire of the average individual is to be full of hope, to dwell on the good things and to shrink from doing the disagreeable.

"I conceive it to be the definite responsibility of management to be absolutely frank with its stockholders—to give them unbiased and unprejudiced information and facts so that they can intelligently determine the value of their investment—to realistically and objectively appraise the company's problems and its future outlook and to map out a program and determine a policy which best serves their interests regardless of the personal ideologies of directors and officers. It is your money which is at stake and we would be traitorous to our trusteeship if we did not do the things which are necessary to best preserve your investment.

Basic Problems

"When a utility is not permitted to effectively and efficiently function because of unfair competition established by government, as is the case with this company, there inevitably results serious consequences to stockholders, employees and customers alike. Extensive subsidized public power competition has the effect of reducing earning capacity and of making it difficult for the company to maintain financial stability and to attract new capital. The situation becomes more acute under the existing inflationary economy where the wages which the company presently pays and the prices of the materials and supplies which it buys average about 75% higher than those of 1940.

"It is very important for you to fully appreciate that Puget is faced with difficulties and uncertainties due to extensive subsidized public power competition with which the ordinary utility does not have to cope. Therefore, the usual yardsticks for judging utility performance when applied to Puget are not in any way appropriate but in fact misleading. No other electric utility in the country is in a comparable situation to that of Puget.

"The basic problems of Puget are not the result of high rates nor of poor service. For instance the average annual use of Puget Power's domestic customers for the 12 months ended June 30, 1947, was 47% more and the average rate per kilowatt-hour was 8% less than the corresponding averages for domestic customers in the TVA area. Puget's fundamental difficulties are political and have their inception in discriminatory national and state laws which have been enacted over a period of years, giving substantial subsidies and special privileges to public power."

"There is no such thing as fair government competition," concludes Mr. McLaughlin. "Because of public power's large subsidies and special privileges, which in the case of Puget amount to about 30 cents per dollar of gross revenue, private and public power cannot competitively co-exist. It is unrealistic to talk about preserving private enterprise in the electric power field in a territory where government - owned properties are operating at cost, which cost has been artificially reduced by subsidies, and where all sorts of special privileges and preferences are accorded public agencies. Once government gets its foot in the door in any field of business the snowball starts rolling and the weight and power of government are used to force the expansion of its proprietary business and bit by bit to bring about the eventual demise of its tax paying competitors."

Public Utility Securities

Wisconsin Power & Light

Middle West Corporation controls Wisconsin Power & Light Company through the sub-holding company, North West Utilities Company. Dissolution of the latter company was necessary in order to complete the liquidation of the Middle West System under the Utility Holding Company Act. This proved to be difficult, since North West had three classes of preferred stock outstanding with substantial dividend arrears, and Middle West owned substantial amounts of preferred as well as the common stock. This raised the question of "subordination," the same as in the recapitalization of Central & South West Utilities, and considerable litigation proved necessary before a final plan was approved by the SEC and a Federal Court. North West has now been ordered dissolved, however, and a distribution of Wisconsin Power & Light common stock (virtually the sole asset of North West) will now be made to public holders of the 7% Prior Lien Preferred, the 7% Preferred and to Middle West Corp. Wisconsin P. & L. "when distributed" is quoted in the over-counter market at about 14½.

The Company serves electricity to 318 communities at retail and 24 at wholesale and also sells at wholesale to other utilities and rural cooperatives. About 90% of revenues are electric, 8% gas and 2% miscellaneous. Capital structure as of Feb. 28, 1947 was approximately as follows:

	Millions	%
First mortgage 3¼s due 1971	$30.0	50%
2% Serial Stock	3.3	6%
4½% Pref. Stock	10.0	17%
Com. Stk. (1,280,925 shs.) & surplus	16.4	27%
Totals	$59.7	100%

According to a memorandum on the company prepared by Ira Haupt & Co., the Wisconsin Public Service Commission "worked out a plan whereby the Company would be permitted to earn 6% on the par value of its common stock, but any balance over this amount would be divided 50% to earnings and 50% to a 'Special Reservation of Net Income' in order to amortize the Plant Acquisition Adjustments and Plant Adjustments until these items are fully amortized." In the 12 months ended Sept. 30, 1947 earnings of $1.87 a share were reported on the common stock compared with $1.77 in the previous period.

Some time ago the company filed an estimate of future earnings with the SEC, with the following estimated results per share on the common stock:

Year	Before Special Amort.	After Special Amort.
1947	$1.97	$1.29
1948	2.11	1.36
1949	2.21	1.41
1950	2.29	1.45
1951	2.50	2.13
1952	2.83	---

Earnings for 1947, so far as indicated by the September figures, appear to be slightly below the official forecast. Moreover, the company has recently issued some new bonds and preferred stock to provide for construction funds ($3,000,000 first 3⅛s due 1978 and $3 000,000 of 4.80% preferred). This would appear to make it slightly difficult, at least for the time being, to earn $1.12 a share after plant amortization. However, it looks as though the present market price is based on the expectation of a $1.12 dividend rate, which would return a yield of 7¾%—about in line with new-issue yields.

News About Banks and Bankers

(Continued from page 21)

be more than 50% above the market price of your stock prevailing just prior to these negotiations."

* * *

On March 15 the world's most modern wire communications system linked 20 banks in 16 cities in a private nationwide network established by **Bankers Trust Company, New York**, which utilizes equipment culminating 13 years of development by Western Union engineers. According to the announcement from the trust company, streamlined to the point where push buttons re-route and re-transmit messages at two switching centers in New York and Chicago to any other terminal point in the nation, the new system does not require additional manual handling after the original message has been transmitted by a teleprinter "sender-receiver" at the point of origin. In part the announcement also said:

"The system, comprising more than 5,000 circuit miles, officially placed in operation on March 15 when S. Sloan Colt, President of Bankers Trust Company, sent message 'Number 1' to the heads of the 19 other banks throughout the country. In sending the first message, Mr. Colt pressed buttons which routed the message to Chicago for switching to western and southwestern points, and other buttons here which directed the message to eastern terminals. The message dispatched by Mr. Colt follows:

"Officially opening our private wire system I send you cordial greetings and welcome you into the family of banks that will use this new and modern means of interbank communication. I feel confident that this new facility will result in a closer relationship among all of us and enable us to serve both our customers and each other more efficiently. With the pressing of a button I send this message to you with my warmest personal regards.'"

Mr. Colt was joined in the ceremonies and at the press inspection by Charles E. Davies, Assistant Vice-President, in charge of Private Wire Services; Alexander Simon, General Manager and Trescott A. Buell, lower Manhattan Superintendent, Western Union. The new system, developed and installed by Western Union, has been under construction for the past six months and with it goes the establishment of a Chicago wire center of Bankers Trust Company. The latter will continue to maintain its regular cable department. The new wire system is under the direction of the Banking Department.

* * *

On March 17 plans for a merger of the Bank of New York and the Fifth Avenue Bank of New York were ratified by the respective boards of trustees and directors. Stockholders of the two banks will vote on the proposal on April 15.

John C. Traphagen, President of the **Bank of New York**, and John I. Downey, President of **The Fifth Avenue Bank**, made the following joint statement on March 10 with the approval of their re-

spective Boards of Trustees and Directors:

"A merger of the two banks has been informally agreed upon. The basis of merger will be one share of stock in the merged bank for one share of stock of the Bank of New York, and four shares of stock of the merged bank for each share of stock of The Fifth Avenue Bank. The name of the merged institution will be Bank of New York-Fifth Avenue Bank. The Board of Trustees will be composed of persons from the respective Boards of Trustees and Directors. A formal merger agreement is being drafted and will be submitted within the next few days to the Boards of the two institutions. Upon approval it will be submitted for final ratification to the stockholders of both bank and to the New York State Superintendent of Banks.

"It is believed that this merger of two of New York's oldest and most distinguished banking institutions will be advantageous to customers and stockholders of both banks. The operation of offices in the downtown financial district and in the heart of the midtown section will provide a broader base for business and permit the enlargement of the services offered by the combined institution. Present personnel and customer relations will not be disturbed."

* * *

DeCoursey Fales, President of **The Bank for Savings in the City of New York**, announces the appointment of William C. McCrea as Assistant Treasurer and Charles F. Chamberlain as Assistant Comptroller. Mr. McCrae has been in the bank's employ since 1932 and Mr. Chamberlain since 1931.

* * *

William J. Gilpin, formerly Manager of the **New York Clearing House** died at his home in New York on March 14. Mr. Gilpin, a native of this city, retired from the post as manager in 1926, after serving the Association for 49 years. Entering the employ of the Clearing House as a junior clerk in 1877, he became assistant manager in 1892 and manager in 1916. At his death Mr. Gilpin was 87 years of age.

* * *

The liquidation of the affairs of the **World Exchange Bank of New York** has been completed by the New York Superintendent of Banks, it was announced on March 3 by the State Banking Department.

* * *

Harold I. Cross has been elected a trustee of the **Queens County Savings Bank of Flushing, Long Island.** Mr. Cross heads the Harold I. Cross Company, mortgage loan correspondents, in Jamaica, N. Y.

* * *

A "Shop at Home" compaign, sponsored by the **Peninsula National Bank of Cedarhurst, Long Island, N. Y.** and encompassing the five communities—Cedarhurst, Lawrence, Hewlett, Inwood and Woodmere — which the bank serves, has produced "good results" in the first two months of operation, according to the bank's officers. The drive will continue throughout 1948. The campaign theme, "Shop in the Five Towns," had a triple-edged launching. Simultaneously, the bank announced the drive in local newspaper advertisements, released a news story containing a statement by the President, Charles J. Machleid, and unveiled a large outdoor billboard. This ten-color poster, situated at the intersection of two main traffic arteries in Hewlett, shows five women "picketers" holding placards, each bearing one word, reading from left to right, "Shop in the Five Towns."

Exports, Imports and Dollars

By A. M. STRONG*

Vice-President, American National Bank & Trust Co. of Chicago

Mr. Strong points out, despite cloudy foreign monetary picture and foreign controls, world needs our goods, and volume of foreign trade in 1948 may equal that of past year. Estimates 1948 U. S. foreign trade will reach $28 billion. Holds unless we increase our purchases abroad, our entire foreign trade will deteriorate.

International business, like any other business, depends upon two basic factors—the need for the goods and the availability of money. The first factor is very much in evidence. There is an urgent need throughout the world for our raw materials, industrial and farm machinery, transportation equipment, consumers' goods and foodstuffs. The shortages created through the diversion of industrial facilities to war production during the war years and the needs created by the reconstruction of devastated areas assure a demand for our goods for years to come.

A. M. Strong

The monetary aspects of our foreign trade however, represent a cloudy picture. In the decade before the war international business was conducted on the same basis as any other business. Foreign nations purchased from us to the extent of their ability to pay. They sold us their goods and services and used the dollars to buy our goods and services. They expanded their industries with their own capital and with American private investments. During the prewar period, 1931-1940, our total exports in goods and services approximately equalled our imports. The picture completely changed after the war. In 1946 our exports of goods and services amounted to $15.2 billion. Only $7.1 billion was paid for through imports, leaving a deficit of $8.1 billion. In 1947 our total exports amounted to $19.6 billion. Only $8.3 billion was paid for through imports, creating a deficit of $11.3 billion. The total export deficit for the two years was $19.4 billion.

The deficit was largely covered by government grants and loans. In these two years such loans and grants amounted to $11 billion. The balance of the deficit was financed by the liquidation of foreign gold and dollar assets; capital investments, and remittances and other payments.

The disequilibrium in our foreign trade is largely caused by the pent up demand for goods that were not produced during the war years, by the reconstruction needs, by the failure of foreign countries to correspondingly increase their imports to us and by a considerable increase in prices. The deficit may be reduced and eventually eliminated by a reduction in foreign purchases, an increase in the use of foreign gold and dollar assets, an increase in loans and gifts, and an increase in our imports.

World Needs Our Goods

Most nations have taken steps to curtail their purchases here by tightening their import controls. Nevertheless, the volume of our 1947 exports indicates the ineffectiveness of their measures. The world is still in great need of our goods.

An accelerated use of dollar and gold reserves by foreign countries was manifested in 1947. This has certain beneficial aspects. When a country is compelled to use its own gold and dollars rather than use other people's money, it will seriously look for ways and means to remedy the situation. Foreign-owned liquid assets in the United States are rather large. However, these assets are not evenly distributed. At the end of June, 1947, the gold and short-term dollar resources of all foreign countries amounted to about $19 billion. This figure does not include unreported gold and certain investments. These funds were divided as follows:

(Amount in millions)

Area	
Europe, excepting sterling area	$9,313
British Commonwealth & other sterling areas	5,055
Asia	1,680
Latin-America	3,278
Total	$19,326

During the period of reconstruction many countries, particularly those in the European war area, have been and are still in need of assistance. We have extended substantial aid since the end of the war and we now contemplate an aid program of $17 billion to Western Europe and substantial grants to other countries. The sum which is now being asked of Congress for the next 15 months, from April, 1948, to the end of June, 1949, is 9 billion 333 million dollars, as follows: European Recovery Program, 6.8; occupied areas, 1.4; other countries, including China, 1.133 million.

Foreign Aid Program

The foreign aid program will require great sacrifices on our part. Let us hope that any aid granted will assist the recipient nations in their reconstruction and will put them back on their feet so that after a given period they will become independent and self-sustaining. Our country cannot continue indefinitely to finance our export deficit by loans and gifts. We cannot overlook the simple truth that trading means exchanging value for value. We can receive value for value only through increased imports, and through sound investments.

During the past fifty years, we have concentrated on selling our products to other nations. We have paid little attention to imports and our import trade grew up without assistance or encouragement. As a matter of fact, we have done our utmost to discourage imports. Neither have other countries been active in promoting their sales to us in the same manner as we promoted our sales to them. Few foreign firms advertise their products in the United States. Our overseas visitors are mostly buyers. Very few come to sell here.

The foreign trade activities of our Department of Commerce, as well as of other government agencies, are geared to our exporters' needs. Little attention is paid to the needs of importers. There are hundreds of foreign trade organizations in the United States set up to assist exporters; few assist importers. This situation must change; we must give serious consideration to imports. It is becoming apparent that unless we considerably increase our purchases abroad our entire foreign trade will eventually deteriorate.

Accelerating Imports

Our import trade can be accelerated by the following program:

(1) The United States Department of Commerce must place imports on the same level as exports and render active assistance to importers.

(2) The Department of State must assist through our Foreign Service in the promotion of imports.

(3) An educational campaign should be undertaken by every foreign trade organization in the U. S. to stress the importance of imports, particularly the stake of our exporters in import trade.

(4) Our government must suggest to other nations that the normal and lasting way to obtain dollars for their needs here is by promoting their sales to us with the same vigor that we promote our sales to them.

Foreign trade is now dependent upon financial arrangements between governments, and is affected by official and unofficial values of foreign currencies, and export-import controls. Of the 141 trading countries and territories, only eight small countries are free from foreign trade controls and restrictions. These controls cannot be totally attributed to economic needs.

Notwithstanding these obstacles and controls, our foreign business is now one of our largest enterprises. 1947 was a record year and we can look forward to as good a business in 1948. Our sales to other nations depend mainly upon the supply of dollars abroad and it may be estimated that approximately $19.5 billion will be available to foreign countries in 1948 for their purchases of goods and services in the U. S., as follows: Our total imports will probably amount to $8.5 billion; the European Recovery Program and other government loans and grants will provide about $7 billion; remittances, private investments, and loans by the International Bank and Monetary Fund will provide about $2 billion; and other countries will probably use their gold and dollar reserves to the extent of $2 billion. The total of our 1948 exports and imports of goods and services may, therefore, reach $28 billion.

*From an address by Mr. Strong at meeting sponsored by World Trade Committee, Indianapolis Chamber of Commerce, Indianapolis, Ind., March 16, 1948.

Three Critical Situations in Our Economy

(Continued from first page)

same time we have had about a doubling of the gross prices which are paid for the services of people who work on hourly wages. Then again, consider the differences which have been brought about between the incomes of people who live on fixed incomes and those who derive their funds from current effort. The people who live on fixed incomes are deeply disturbed and are reluctant to spend and invest of their money today.

We are all aware of the fact that farm prices or the prices paid for farm products have been increased much more than the prices paid for the services of salaried people, even wage-earners, and in particular, say, the price paid in the form of rent for the privilege of occupying dwelling space. Consider the present price-value judgments or attitudes of the typical house owner, who invested his money in residential construction to be rented in the thirties, when he considers the subject of how much he pays for his food, an auto or clothing today in relation to how much he receives for renting his house.

Now some may say that the farmer did not make enough money before the war and others may also say that the landlord charged too high a rental before the war, but I am not taking such matters into consideration. I am simply taking into consideration the attitudes of these people—these individuals—in regard to the prices which they pay and receive. What do you think the attitude on their parts is toward their expenditures, their investments, and their incomes?

It may be observed that there are great differences between different raw material prices brought about by the uneven rise in prices. Some raw materials are exceedingly high relative to the prices of other raw materials as measured by past relationships. In my office we calculate the disparity between raw material prices on a monthly basis since before War I. One of the factors which we use in judging whether or not the price system is unstable is the amount of difference that is being developed between different raw material prices. We use the prices of such things as hides, scrap steel, grain, sugar, etc. At no time in this century has there been so much disparity between the prices of different raw materials as is the case today. This is indicative of a maladjusted and distorted price system and the existence of confused price-value judgments.

The break which has occurred in farm prices is a first and important step in a readjustment of our price system. The farm prices, as a group, were the prices above all others which were most out of line with what might be considered a stable relationship to other prices. It has been quite interesting to note that these, being the most extended prices, have been the first to be reversed in a rather dramatic manner. Possibly the recent break in the price of agricultural products is the first harbinger of a period in which many prices will be readjusted. In 1920 the break in the price of agricultural products preceded the break in the general price level by several months, and it would not be unique if we were experiencing about the same general kind of pattern this year. We have a large number of extremely unstable prices today, and the rapidity with which the rise in agricultural prices was reversed is most significant of developments. It is indicative of price instability as well as evidence of price disparity.

Another result of the disorganization of our price system has been the confusion of the arithmetic of business accounting. I defy most businessmen today to tell me how much profit they have been making, because I am certain they don't know.

Last week I was discussing the effects of the inflation in Germany on the accounting system with a German economist who lived through that experience. He said it was his opinion that the price level in Germany had been increased by some 200% before the businessmen caught on to the fact that they were giving away their capital equipment. I think it is interesting to comment on the fact that our business managers began to catch on to the fact that they were giving away their capital equipment when the price of capital equipment had been only doubled. It costs at least twice as much to replace capital equipment today as it did to buy the capital equipment before the war; and, although many of our accountants say that machinery and equipment which we buy today is more productive than machinery which we are consuming or using up, nevertheless, the investor—the man who puts his money into the hands of a manager—expects the manager to obtain for him a sum of money or capital which will buy as much in terms of goods and services as the money which he originally invested. When we have experienced a dilution of the money supply, the manager of a business must increase depreciation charges to reflect currency dilution, or otherwise he is giving the capital assets owned by the investors away.

Fooling Ourselves On Profits

In addition, we are fooling ourselves once again by enlarging our profits as a result of inventory accounting. Out of the $17 billion of corporate profits which were reported for last year by the Department of Commerce, $5.2 billion of that $17 billion consisted of what is called "inventory revaluation." It is common accounting practice to calculate the cost of production over a year by taking the inventory at the beginning of the year, adding to it the cost of things purchased during the year, and subtracting from that total the dollar value of inventories at the end of the year, appraised at the lower of cost or market price. You may readily see that if inventory prices at the end of the year are higher than inventory prices at the beginning of the year, the calculation of net costs will be reduced by the amount by which prices paid were increased. As a result of this procedure in accounting, the Department of Commerce has estimated that $5.2 billion of reported earnings consisted of that kind of profit. In England managers would not be permitted to call that a profit. Companies which use Lifo accounting do not report that kind of profit. But there are enough companies who do report that kind of profit to raise corporate earnings reported by some $5.2 billion. Now that kind of profit cannot be spent; it cannot be paid out in dividends; it cannot be used for purchasing capital equipment; it cannot be used for financing additional inventories; and it cannot be used to finance accounts receivable. In fact, it cannot be used, and it really isn't profit. It should be isolated as a reserve but ordinarily it isn't, with the result that numerous managers and investors are kidding themselves concerning how much money they are making, because the accounting systems which they are using are not adequate to cope with the kind of changes which are taking place in our price system due to a dilution of our money supply.

I have said that we have experienced an inflation of our money supply which has resulted in an increase in prices; that the combined increase in prices and production has been large enough so that we have some reason to think that we may be at a turning point in the rise in production and prices which might be proved to be a temporary ceiling in the volume of production and a temporary high in prices. I have also said that at this point in the inflationary process we may observe all manner of price disorganization in our economy. In this kind of a situation, a businessman would be well warranted in keeping an eagle eye on the movement of goods in retail trade. For, if retail trade is reduced significantly, it means that large numbers of people are deferring expenditure for consumption; and, if large numbers of people do that in the situation we are in now, we are certainly going to have a reduction of business activity and in trade and will experience a deflationary spiral of some kind or other.

Business Capital Investment

The second critical factor of major importance which I am going to mention is the subject of business investment. When I use the term "business investment," I refer to the investment of nonagricultural business in plant and equipment which is not charged to expense in the current year. Certain businessmen purchase dies, loose tools, and other items of equipment which they amortize in the course of one year. I am not going to call the purchase of this kind of asset "investment." I am talking about the expenditure by enterprise management for plant and equipment, not farm machinery and equipment, but simply what we ordinarily think of when we refer to factories, offices, stores, warehouses, machinery, etc.

Last year business investment in plant and equipment probably was somewhat low. Now that sounds like a surprising statement because we frequently are told that business investment in plant and equipment was high. The investment by farmers in agricultural machinery and equipment was high and apparently there was an enormous amount of loose tools and equipment bought in this country, so the total of business investment, including farm investment and investment in loose tools and equipment seemed to be classifiable as "high." But business investment of the type to which I refer was only about 7.8% of national income. In a well-balanced year, such as 1925—and I use this period because I think in 1925 we had not yet developed the excesses of the late '20's—this kind of business investment was about 10% of national income. So in 1947, despite the fact that we thought that our business investment was so high, we actually spent less of our national production for plant and equipment, excluding farm investment, of course, than was the case in 1925 and a much lower amount than is the case when business investment really is high.

Now I have an idea that we are not going to continue this current level of business investment in plant and equipment despite the fact that it has not been high relative to income. Last year we spent some $15 to $16 billion, as closely as we can tell. I doubt if we spend that much in the year 1948. In the first place, as I said, businessmen have not been making as much money as they thought. Last year, out of the $17 billion of corporate profits, $6.6 billion were spent in the form of dividends, leaving $10.4 billion. Of that $10.4 billion, $5.2 billion were locked up in inventories by the rise in prices; so if we deduct that $5.2 billion, we would have $5.2 billion left. All corporate depreciation totalled $4.8 billion; and, if we double the depreciation on plant and equipment which existed before 1940, we would deduct approximately another $3 billion; in other words, it is going to take business management about $3 billion more than they charged for in their depreciation to obtain enough money to replace plant and equipment or to obtain enough capital so that the owners of the enterprises will be getting funds equal in exchange value to the funds which they invested. If we take another $3 billion dollars from the $5.2 billion of undistributed corporate profits that remained, we have only $2.2 billion left or available for addition to surplus.

So, the $17 billion of corporation profits which seemed to be so exceptionally large, only provided possibly $2 billion for additional investment in new plant and equipment plus the amount obtained from corrected depreciation charges. These calculations lead to the conclusion that corporations probably cannot finance a continuation of the current low level of investment in plant and equipment from internal sources of funds. It is apparent that the level of business investment in plant and equipment which we experienced last year was financed from internal sources; from term loans which had been made by the banks in 1946 and 1947 and which the banks are no longer making in large quantities; from the sale of obligations; and from savings accumulated during the war periods. But the source of funds for the term loans is ending; internal sources are not adequate; the savings of the war periods are being spent; and the equity markets are anything but a reliable source of capital.

In 1925, incorporated business in this country raised sums equal to 47½% of the money which was used to purchase new plant and equipment in the security markets. Now I am not talking about 1928 or 1929 when from 60% to 80% of the money was raised by means of security flotations; I am talking about 1925. In 1947 the new issues were equal to about 30% of the money invested; and, in order to raise that amount of new capital, the addition to the supply of securities apparently was enough to reduce prices in the equity market.

In 1925 an amount equal to 4.7% of the national income was invested in new securities; in 1947, despite the fact that we issued so many securities that we increased the supply of these relative to demand and pushed the price down, we issued new securities equal to only 2.3% of the national income. This was just about one-half of the relationship of security issues to national income which we experienced in 1925.

From these figures I would deduce a number of things. First, I would say that the effects of progressive taxation in combination with the increase in prices indicate a situation in which people in the middle and higher income brackets are no longer saving enough from their current income to provide sufficient new capital to permit maintenance of the current rate of investment in plant and equipment. I would arrive at this deduction by observing the trend of prices in the stock market. In addition one may use personal observation of what people one knows who have salaries of more than $5,000 per year are doing with the money which they earn.

In addition, it is interesting to note that the progressive tax rates which are being used to siphon money from the hands of those people who might invest in plant and equipment are also being used to direct money into the hands of those people who employ the funds to enlarge the demand for consumption goods. In other words, the money or income which used to be used to enlarge plant and capacity is now being diverted into the hands of people who use it for consumption purposes. This is not inflationary, but this situation is one in which prices are disorganized and increased.

Shortage of Equities

Please note that I have not said that there is a shortage of capital in the aggregate. One can find evidence of large savings under accumulation today. These sums are invested in life insurance companies and are available for investment, but this kind of savings is not available for investment in equities. We do not have a shortage of capital, but we do have a shortage of equity capital. This difference is important because many businesses cannot use borrowed money. One reason why we had such a deep and protracted depression in 1930, 1931, and 1932 was that the managers of many businesses went so far in debt in the 1920s. Consequently, when they tried to pay off their indebtedness, they had to reduce their current investment and other expenditure to such a low level that it was difficult to attain the bottom of the recession in production and prices. Unfortunately, the managers of our business enterprises are being encouraged to do exactly the same thing all over again. This situation does not presage prosperity over the long-term by any manner of means.

At this point I would like to recapitulate by saying that there is evidence of a pressing demand for equity capital, that there is a deficiency in the funds available for investment in plant and equipment from the internal corporate sources of funds, that there is deficiency in saving in the hands of people who might invest their money in equities and that the prime cause of this deficiency seems to be progressive taxation. In consequence, I would conclude that it is probable that aggregate investment in plant and equipment is going to be reduced. There are some exceptions to this statement. I am talking about the all-over total or the aggregate. The exceptions are the railroads, the utilities, the oil industry, steel industry and some others. The managers of some of the durable goods and service industries probably are going to continue or even increase their investment in plant and equipment. In some cases these are industries in which capital obtained by selling bonds can be used. In other instances the expansion is of such a nature that when once it is started it is rather difficult to stop.

The Banking Situation

The third critical factor which I will mention is a situation which is being developed in the banking system. We have heard much about the tightening of credit supposedly brought about by the monetary authorities. As an actual matter of fact, the demand for new capital by the managers of business enterprise and the public officials of the state and local governments has been so great that they have bid up interest rates in order to get capital. Consequently, the yields on corporate obligations and local government obligations have been increased to the point where holders began to sell government bonds in order to buy the obligations of state and local governments and corporations. As a result, the Federal Reserve authorities were forced to support the market for government obligations. Actually, I would say that the reserve authorities have not taken the initiative; they have done what they thought was necessary in view of the action taken by people who wanted to acquire capital. Probably the Reserve authorities have done little other than to prevent interest rates on government obligations from being increased substantially.

We are also being told how the fiscal operations of the Federal

Government can be used to retard or prevent further rise in prices. This idea is developed from evidence that the Federal Treasury is taking in more money than it is paying out. In this way a cash balance is being accumulated which can be used to retire government bonds, in order to reduce something called "purchasing power." Actually the excess of government receipts represents funds saved by taxpayers during the past and only to a minor extent can be considered as a reduction of current income available for expenditure.

Those of us who as individuals or as managers pay large sums to the Collector of Internal Revenue during the first quarter save funds for this purpose during a prior period. Taxpayers anticipate their payments of cash to the government for taxes: and therefore, the money which the government receives in the first quarter of the year, which is in excess of government expenditure, is not money which istaken from consumption during the first quarter of the year but has been accumulated over a past period of time. Of course bank reserves are reduced when federal funds are shifted to the Reserve banks. But bank reserves are not a present problem. Actually there isn't evidence to support the conclusion that the present activities of either the Federal Reserve Board or the Federal Treasury are of much importance as determinants of the end of a rise in prices. Apparently the most important critical situation in the credit system is the relationship between assets and bank capital in the commercial banks. In recent years the commercial, agricultural, and real estate loans of the commercial banks have been enlarged substantially as a result of the rise in prices. On the other hand, bank capital has not been significantly increased. Before the war it was not considered good practice for the managers of a commercial bank to permit the capital to be less than 10 or 11% of total assets. The bank examiners used this kind of a ratio to limit the loans and investments in the interest of bank solvency. During the war the rules were changed by permitting bankers to consider government obligations as being riskless in calculating the ratio of earning assets to capital. But during recent months some bankers have learned that you can lose money by holding government bonds. Not much money has been lost this way, but some investors are holding government bonds on which they have a small loss. Furthermore, it is entirely conceivable that at some time in the future there may be more loss. In this circumstance it is interesting to consider some of the bank ratios.

At the end of 1947, commercial bank capital in relation to total assets apparently amounted to about 6⅓% of total assets. In June, 1938, the capital of the commercial banks was equal to 11.9% of total assets. The ratio has been reduced from 11.9% to 6.3%. We also may compare the June, 1936, figure of 11.1% with the 11.9% in 1938 and 6.3% at the end of 1947.

The relationship of bank capital to the risk assets also is of interest. By risk assets I mean earning assets less government obligations and cash. Commercial bank capital in June, 1946, apparently was about 26.3% of the total of risk assets. In June, 1938, it was 26.4%. As closely as can be calculated, the percentage was only 20.5% at the end of 1947. This statistic indicates that commercial bankers are in many communities probably coming to the conclusion that they cannot make too many more loans. In this connection it is interesting to note that the rise in commercial credit has been flattened out significantly since the end of last year. Consequently, I don't think that bank loans are going to be as easy to obtain as has generally been considered probable. Therefore, we are experiencing, at the approximate peak of prices due to inflation of the money supply, a crisis in corporate finance and a constriction of credit. These factors are being made evident when we already have an unstable situation in terms of price relationships.

Marshall Plan—A Snare and Delusion

(Continued from page 4)

tolerated, which fact is directly in line with the view taken by Lord Curzon in 1890, when he wrote that "the normal Asiastic would sooner be misgoverned by Asiatics than well governed by Europeans." The English protectorate over Egypt in 1914, when World War I was raging, was accepted because of military necessity. It was discontinued in 1922 and Egypt was at last recognized as a kingdom, with a sovereign of her own. The only cessation from such dislike occurred during 1935, when Mussolini prosecuted his unlawful attack upon Abyssinia. When that passed, the old resentment arose once more showing itself against even the presence of British troops along the line of the Suez Canal, for purposes of defense.

Reflections Upon England's Egyptian Experience

This piece of history is replete with valuable lessons for us Americans at this particular time. The first is this: The impossibility encountered by England in withdrawing from the adventure after she had made her large investment in Egypt. She simply could not escape from the weight of those heavy Egyptian loans. Secondly, England earned the undying distrust and dislike of the Egyptian people themselves. The very people whom she was assisting were the ones who detested her. This is a very serious thought for us.

Marshall Plan Would Augment Difficulties for Us

These difficulties would be vastly augmented for us under the Marshall Plan. Our own situation with respect to the 16 countries of Europe would be even more difficult than that of England in her relations to Egypt. Our loans are to go, not to Orientals like the Egyptians, who have not been their own masters for a thousand years, but to Europeans, intensely jealous of the Great Republic of the Western World, and equally suspicious and resentful of foreign dictation. When we loaned money to Germany after 1922, and under the Dawes plan, our loans did little good to any one till we had our own representative abroad, the late S. Parker Gilbert. He acted as our "Agent General" in Germany and his power to control waste and folly in expenditures was a real one. He could and did exercise that power to check the Germans. Mr. Gilbert was not only a financier of exceptional ability, but was also blessed with tact and courtesy to a very great degree.

Problems of an American Receiver

It will conduce much to an understanding of the Marshall Plan —otherwise called the European Relief Program—if we try to get before our minds some slight idea of just what will have to be done in each of the 16 countries who are to be benefited by our loans. If we are right in likening the role which the United States must play to that of an American receiver of a bankrupt railroad, let us first get some notion of the problems which such a receiver is called upon to solve. They are many, and they are far from simple. First, the receiver must manage to put the property itself in first-class condition, so as to admit of an economical operation of the line when it is finally returned to its owners. After this, the receiver must determine between the conflicting claims and rights and interests of different classes of creditors and security-holders: first mortgage bondholders, second mortgage bondholders, holders of receiver's certificates, of junior bondholders, of those holding the stock or bonds of leased lines, as well as the rights of preferred stockholders and ordinary common stockholders in the parent company—who too often discover that they have no rights at all. These negotiations often occupy many years, and lead to the bandying about of many claims between the Interstate Commerce Commission the United States District Courts, the Circuit Courts of Appeal, and sometimes the United States Supreme Court itself; from all which courts instructions are sent back to the receiver. The whole proceeding is a work of years.

The Difficulties of an American "Agent" or Representative in a Foreign Land

Complex and sometimes exhausting indeed are the workings of an American receivership. But they are simple when contrasted with what would be encountered by any nation that acts as banker and supervisor over 16 other nations; and also by anyone who should be sent to act as an "Agent General" in the foreign country. Here are some of the questions to be faced primarily by the United States itself, and secondarily by her representative in the debtor countries: (1) The need for close and intimate supervision by the creditor nation over nearly the entire revenue of the debtor country, coupled with a veto on extravagant budgets and questionable expenditures; (2) The presence of some representative of the creditor nation at the capital and on the treasury board of the debtor, armed with ample powers of enforcement; (3) The danger of complaint by one debtor country against the creditor nation, charging that favoritism is being shown to another debtor, thus creating hatred and mistrust among the 15 other debtor countries; (4) The infinite possibility of intensive and deeply hidden maneuvers underground, between the different debtors among themselves in order to circumvent and nullify the plans and proposals of the creditor; (5) The enormous difficulty and delicacy of determining which one of the many applicants for loans within a foreign country, is to be the favored party, and whether any project at all is proper for investment; (6) What would be the proper course to be followed by the creditor if it should become evident that the money already advanced by the creditor was proving insufficient to accomplish the object which the debtor nation was seeking to achieve. This is well illustrated by our English loan of three and one-half billion dollars. It has wholly failed to do for England what she had hoped, and it is nearly exhausted already. Will Great Britain soon ask for another advance? If so, what is the proper thing for the United States to do?

These are some (but by no means all) of the many perplexing and well-high unsolvable difficulties to be encountered in the management of a series of foreign loans. Moreover, all of the foregoing difficulties would be enhanced and aggravated by finding that some nations were in favor of high tariffs for protection while others leaned strongly in an opposite direction toward free trade; that some were advocates of a gold standard currency, while others sought an inconvertible paper currency, often conveniently styled a "managed currency." Every one of these questions contains a headache in itself.

President Truman himself is not blind to the pitfalls that lie across the path of the Marshall Plan for he says in his message:

"Continued relationships must be maintained with the United Nations and with an organization of the participating nations. The requirements for each commodity or service under the program must be carefully evaluated in relation to United States supplies and domestic needs and to the resources of other nations which can help. Decisions must be reached as to the best means of supplying aid and the conditions of aid for each country. Assistance must be given to facilitate the procurement, transportation, and efficient use of goods. A constant review must be maintained over the use of our aid and the execution of agreements. The results of the program must be evaluated and reported to all concerned — the President, the Congress, and the people."

The President puts this so forcibly that it calls for little comment here. All we do is to ask close attention to some of his words, such as these: "*A constant review must be maintained over the use of our aid and the execution of agreements.*" Could there be asked any better illustration of the truth of this than our present difficulties in Greece and Korea? Unless the foreign news columns of some of our newspapers are sadly at fault, our government is at this very time finding it most difficult to persuade the Greeks to keep their word in return for the help we are giving them; while in Korea where we have spent so much money and afforded so much assistance, American soldiers are cursed, and American goodwill is derided.

European Selfishness and Communist Hatred

We have touched upon the mere fringe of the difficulties but we have said enough to show the hopelessness of the Marshall Plan ever proving itself to be a tonic and resuscitator of the Old World. Rather it should be likened to the hydra which Hercules attacked and which had nine heads; if one head was cut off, two immediately grew in its place. If this seems an overstatement, let us give close attention to what the President himself says in his message, for the President names a hydra which we have not as yet mentioned.

"Political events in Europe and in the rest of the world cannot be accurately foreseen. We must not be blind to the fact that the Communists have announced determined opposition to any effort to help Europe get back on its feet. There will unquestionably be further incitements to strike, not for the purpose of redressing the legitimate grievances of particular groups but for the purpose of bringing chaos, in the hope that it will pave the way for totalitarian control."

These are words of wisdom, which we ought to heed—they are worthy of our most serious thought. They point to a danger so great that it is powerful enough to disturb, if not to wreck the whole plan of recovery.

When Could the United States Withdraw?

The only answer we suggest is to look at some receiverships: The Rock Island RR. has just emerged from a receivership of some 14 years; The Seaboard Air Line's experience was nearly the same; that of the New York, New Haven and Hartford lasted 12 years; that of the Georgia Central, 14 years.

We risk nothing in guessing that, like England in Egypt, we would be enmeshed in Europe's hateful and unworthy political quarrels for 25 years.

This is an awful price to pay for regaining our foreign commerce.

The Final Outcome

But in what condition would all the parties find themselves when the end should come? We venture no guess concerning any country but our own. We Americans would be the most hated, despised and unhappy people on whom the sun shone. We should be cursed by every one to whom we had ever advanced a dollar—denounced by every country we had tried to assist. American imperialism would be feared everywhere. Do the relations between borrowers and lenders, between mortgagees and mortgagors, between landlords and tenants, between pawnbrokers and their clients afford us no ray of light on what would be our own situation in the eyes of the world? Not only would our billions of dollars be gone; that is bad enough. But worse still, every chance for moral leadership, every possibility for securing international standing in a reorganized and revitalized world would have been forfeited beyond recovery. To imagine that it would be possible for us to become international money-lender on a world-wide scale, chaffering and bargaining and quarelling with 16 nations of Europe for 25 years and then emerge from the mess with our plumes still shining white, our hands unblackened, and our reputation untarnished, is to go day-dreaming in a world of hard, coarse and brutal cynicism.

John Bassett Moore, in his work entitled "International Law and Some Current Illusions" says at p. 24:

"Of all the illusions a people can cherish, the most extravagant and illogical is the supposition that, along with the progressive degradation of its standards of conduct, there is to go a progressive increase in respect for law and morality."

The adoption of the Marshall Plan spells the end of our role as moral leader of a new world. This is a side of the matter which has been overlooked by some good Christian people who have enthusiastically endorsed the Plan without 10 minutes of debate.

Stock Brokers Assoc. Of Chicago Hear

CHICAGO, ILL.—Louis Loss of Washington, D. C., Chief Counsel of the Trading and Exchange Division of the SEC, addressed a meeting of The Stock Brokers Associates of Chicago March 16, on the trading floor of the Chicago Stock Exchange.

Mr. Loss' subject was "Broker-Dealer Relationship," and presented actual case material. A question-and-answer period followed the address.

Patten, Arnold Formed

PORTLAND, MAINE—As of April 1, Patten, Arnold & Co. will acquire Timberlake & Co. Officers will be Stanley H. Patten, President, and Gilman L. Arnold, Jr., Treasurer. The firm will be located after April 1 at 477 Congress Street.

1948—A Critical Year!

(Continued from first page)

that the year in which we now find ourselves might well be called the critical year.

True, the "man on the street" may not feel that conditions are particularly foreboding. Prices are high, but so are profits and wages. Jobs are plentiful; everybody except the white collar worker has money in his pocket; and the goods people want to buy are becoming steadily easier to secure. Life goes on very much the same as it always has in times of peace and so long as the strains and stresses within the economic structure are not visible to the naked eye, the general public is usually not very much alarmed. True, there is a vague feeling abroad in the land that all is not quite as good as it looks. There is concern about the increasing cost of living, and one might wish that Russia would behave itself. But, after all, Congress has promised to reduce taxes, and somehow it is difficult to convince ourselves that another war is really very imminent. Even these threats of alarm are subject to heavy discount. During the last session of Congress, noisy prophets foretold the complete disorganization of business that would follow from a failure to reduce taxes. We were threatened with all sorts of disaster if the Taft-Hartley Bill were passed, and likewise if it didn't pass. Total ruin was to be expected if governmental expenditures were not drastically reduced, and also if some of them were. From week to week we were assured that our national destiny depended upon whether or not some particular measure were passed or not passed, the very names and subjects of which were soon forgot.

And, anyway, we have always come out pretty well on the whole. In President Conant's Annual Report to the Board of Overseers of Harvard University for 1947, he said, "Casting our thoughts back a hundred years or so we realize to what hazards the life of this nation has been exposed. But we know now what our predecessors a century ago could not know, that there were solutions to the most perplexing problems and that none of the terrifying dangers proved fatal to this republic. I can well imagine that if the members of the Governing Boards of Harvard in 1826 had foreseen the magnitude and the nature of the changes in their own state and nation in the next 100 years (not to mention those in other nations) they would have concluded that there would be no place for Harvard University in the middle of the 20th century." It is well for us to keep this perspective and this faith. Otherwise, instead of meeting each day's problems with energy and determination — even in a spirit of desperation at times —we should give up in hopeless despair. In his report, President Conant went on to recall that President Eliot once remarked that a good past was postively dangerous if it made one complacent about the future.

Retrospect of 1947

And for us in this country, we may well look back upon 1947 as being in many ways "a good past," indeed. Employment stood above 60 million. Wage rates were doubled prewar levels. Personal income ran around $100 to $120 billion. Farmers' gross income was about $30 billion, well over three times what it was in 1939, and cash income was up 20%. Industry spent some $16 billion for capital outlays. Manufacturers made profits in most cases far above those of 1946. Individual holdings of liquid assets (currency, bank deposits, and government securities) were close to $160 billion as against $46 billion in 1939. The Federal Reserve Board index of physical volume of production stood at 193 at the end of the year on a base of 100 for the 1935-1939 average. But what is gained by going on with these data? One may quarrel with the comparability of these figures, and raise all sorts of questions as to the validity of almost any one of them. But such comments are more or less besides the point when all the weather vanes point in the same direction. From any standpoint of men, money, or materials, last year was a good year for almost everybody.

And I suspect that with certain reservations, 1948 will be a good year, too. The recent survey by "Fortune" indicates that most business executives believe that even though profits were, generally speaking, at bonanza levels in 1947, they will be at least as good in 1948 and nearly one-third of these men think they might be better. There is still a large unsatisfied demand for goods and a great deal of money with which to pay for them. Manufacturers plan to spend almost as much for capital equipment and expansion in 1948 as they did in 1947. The housing program has a long way, indeed, to go. The Federal budget provides for an expenditure, exclusive of all military expenditures (four-fifths of the total), of $8 billion, and even though Congress may not approve of all of it, the Federal Government will certainly be in the market, directly and indirectly, for a lot of goods and services. Sixteen billion dollars more would go for veterans' services and benefits. Price floors are under some 20 commodities and can be placed under some 140 more without further Congressional action. The unions are certainly not going to stand by and see wages lowered without a fight. And over and above all of these statistical data is the still widely prevalent bullish psychology and the speculative desire to hang on and make the most one can while the making is good. So any way you look at it, there seems to be money to spend, goods to spend it on, and little desire to retrench.

1948, a Critical Year?

Yet in spite of all of this, I repeat my earlier statement that 1948 may be a good year; it may also prove to be the critical year. And if it be the critical year and we recognize it as such, then it should also be the year of decision. For I am certain that it is particularly what we do this year that is going a long way toward determining what happens next year, and for several years thereafter. Economic strains and stresses are beginning to show in the business structure. Some of the comparatively minor cracks I pass by—the slump in grains, for example, was welcomed by, yet frightened, a great many people. It offered political fodder for those in need of such food, but it was not serious in itself. The cessation of government buying plus the excellent crop reports from this country and abroad, added to the fact that the market was undoubtedly top-heavy anyway, was sufficient to cause the readjustment that took place.

Especially important is the necessity of not overstressing at this time this particular readjustment in grain and livestock, because of the impossibility of forecasting now the agricultural crop outlook for 1948. In Europe, 1947 was a very bad crop year, but the present winter is far less severe. Growing conditions are reported to be excellent in the Southern Hemisphere, and a huge wheat crop seems likely in this country. All these tend to bring agricultural prices down. A decline in agricultural prices would reduce the purchasing power of the farmers, and if the decline were severe enough, it could precipitate a decline of prices all along the line.

But there are other straws in the wind. Repossessions are beginning to occur once more. Installment buying is showing a trend that may well require new credit controls. The business failure rate is upward. Thus, failures from January to December, 1947 totaled 3,476, three times as many as in the corresponding period in 1946. (Incidentally, the number of failures, though not the dollar volume, in the San Francisco Federal Reserve Bank District exceeded those for any other district in the United States.) Retail trade last year, both in physical volume and in margin, was off from 1946, and although large retailers are talking about heavy sales volume for the first six months of this year, they are most hesitant about committing themselves on what the future holds after that. Some important manufacturers did not make the profits last year that so many others did. The movie industry was generally off. Public utilities did not do so well. Banks are beginning to tighten up on credit, and some of them are loaned up so close to the limit that further expansion of their credit is subject to severe limitations.

Outlook for Export Trade

Another factor of even greater importance to watch is our export trade. In 1947 exports from the United States exceeded $14½ billion, as compared with a wartime high in 1944 of $14 billion, $246 million. The world is very short of dollars, and even with the Marshall Plan to provide them with purchasing power, exports in 1948, especially in the light of controls, may well be 20 to 25% less than they were last year. And the notable cut in tariff rates should stimulate imports and reduce our favorable trade balance. It may be that these signs are only on the surface, perhaps they don't mean so much in the face of the general trend, so it behooves us to look further.

Investment in Capital Equipment

There are two or three major considerations to which I do want to call your attention more particularly. The first of these is the situation with reference to investment in capital equipment. This index is one always to be watched, not only because of its volume, but because it constitutes some measure of the judgment of business as to what the future holds and because of the indirect effects upon employment and prices of its curtailment. As I indicated once before in this discussion, business spent last year something in the neighborhood of $15 to $16 billion on its planned postwar plant and equipment program. According to a recent McGraw-Hill analysis, it plans to spend nearly this amount again this year —off perhaps 8%, or roughtly $300 million. This would seem to be a fairly safe forecast. Fifty-seven per cent of the companies interviewed indicated that they would not cut their budgeted figure for capital outlays down even though wages went up 15 to 20%, and 26% of the companies said that they would even increase their budget if wages went up. But this does not tell the whole story. Sixty-four per cent of the program for initial postwar rehabilitation is now completed, and by the end of 1948, that program will be 85% complete. Less than 40% of the companies have any capital budget plans for 1949, and of this 40%, 45% plan to spend less than in 1948. Furthermore, according to the same analysis, the purchase of new plants and equipment by manufacturing companies will be financed in the current year out of past and current earnings, and so far as these expansion and rehabilitation allotments are concerned, they will have been exhausted by the end of this year. Railroads and utilities even now must go to the banks or the security markets for the major portion of their new capital. Finally, by the end of 1948, the industrial productive capacity of this country will be at least 50% greater than it was in 1939. This latter fact may not, in and of itself, be of too great importance in view of the increase in population and the resultant demand, but it is nevertheless notable. All this means that billions of dollars spent for rehabilitation in 1947 and 1948 will not be spent in 1949. Surely it won't unless and until the general economic situation clarifies itself, which necessitates finding some means either to forestall these decreases or to supplant these monies, and the means also must be found to absorb the tremendous volume of goods industry is fast preparing itself to turn out. Remember, too, that ERP now makes no provision for the purchase of machine tools, and the "Survey of Current Business" for January says expenditures for used plants and equipment for the first quarter of 1948 indicate a continued dwindling of the magnitude of expenditures for such items. Finally, for what it is worth, private nonresidential construction dropped by some $169 million. This may be as significant an indicator as is the fact that private, residential, and public construction increased. The time to weigh the consequences of these facts and to formulate a policy to deal with those consequences is in 1948 — a year for decision, a dangerous year.

Disposition of 1947-8 Profits

All of this has bearing on my next point, which has to do with the disposition of profits earned in 1947 and 1948. Quite recently I glanced over the earnings of some 50 large corporations for 1946 and 1947—earnings after taxes. It was a most interesting list. Forty out of the 50 made more money in 1947 than they did in the preceding year. Let me mention just a few.

	% of Increase of Profits 1947 over 1946 [1]
Steel:	
U. S. Steel	42
Bethlehem	22
Jones & Laughlin	106
Republic	93
Chemicals:	
Monsanto	54
Union Carbide	32
Farm Machinery:	
International Harvester	117
Deere & Co.	41
J. I. Case	232
Tobacco:	
R. J. Reynolds	33
Railroads	56
	1947 over 1939
Meat Packers:	
Armour	341
Cudahy	728
Hormel	100
Morrell	33
Swift	115

Evidently President Truman has some substantial grounds for his statement, that "profits of corporations reached an all-time high in 1947. Corporation profits totaled $17 billion after taxes." Whether profits of these magnitudes are too high or too low I do not profess to know. But there are two things about them to which I should like to direct your attention. The first is that so far as actual realizable profits are concerned, the amount earned is probably considerably less than the figure commonly quoted. And the second is that as a matter of profit policy, there is some doubt as to the wisdom of manufacturers charging all that the traffic will bear under these circumstances.

First, concerning the size of the profits themselves, the Department of Commerce recently estimated that inventory profits (that is, profits solely from increases in dollar valuation of a given amount of physical inventory) amounted to slightly less than $5 billion out of approximately $17 billion profits after taxes in 1947. This is, of course, a very rough estimate, and applies to all kinds of inventory. There are two significant things about this. One is that even under more recent accounting methods, confusion may still persist as to the real sources of the profits earned by a company, since these inventory profits are not always, as I have long argued they should be, separated and earmarked. Thus, we do not know just how large they are. The other important thing to note is that during a period of inflation, though these profits do arise almost inevitably, they do not represent freely disposable funds. These so-called profits are almost immediately tied up in new inventory acquired at the higher price level and to that extent merely replace inventory processed or sold.

Inadequate Depreciation and Equipment

But there is another allowance to be made aside from any readjustment in book profits due to inventory valuation. This second deduction arises out of the fact that the replacement cost of capital equipment has gone up with the general price level, and is today well above the original cost of most of the existing equipment. Yet depreciation has traditionally been based on the original cost of existing assets. By an appropriate charge each year, the total original dollar cost of capital equipment is allocated to and spread over its estimated life. Depreciation is treated as an expense in calculating costs, and thus in measuring net income. Under stable conditions, the depreciation charge almost automatically makes provision for the retirement and replacement of capital assets. The important feature of this analysis is that when depreciation is based on original cost, the investment is thereby regarded as a certain sum of money, which, representing the original cost, is also the amount to be replaced. However, under rising equipment costs, this sum of money is inadequate to replace the equipment when the time comes for such replacement. All of this thinking is subject to some caution, of course. Prices do not always go up; some companies set aside special depreciation charges to cover the excess of replacement cost over original cost; some times the equipment is not replaced at all. But under conditions as they existed in 1947, the major point I am making held true, and requires a second deduction of some amount from the profits figures as commonly used.

Overestimation of Profits 30%

Adding together the deductions that have to be made because of the book nature of inventory profits and allowance for the inadequacy of the depreciation charges, it may well be true that the alleged $17 billion profit after taxes is more nearly $12 billion, 30% less. When the Administration uses a profit figure, it might well revise its estimates of the ability of corporations to bear a large share of the tax burden.

But the President and Congress are not the only ones who should use these net profit figures with care. Business management needs to watch these figures when it projects 1946 and 1947 into 1948, and even more so when it begins to think about 1949. Companies may not have as much money as they think they have, and their sales and profit projections may be more rosy than actual results of operations warrant. Some profits are illegitimate and antisocial, and some companies undoubtedly are improperly charging items to expenses in an effort either to avoid taxes or to avoid revealing to all and sundry what their earnings really were. Labor leaders need to watch these figures with

[1] Based on figures from "Business Week," Jan. 17, 1948, and Feb. 7 and 21, 1948.

the same care when the demand is made that because large profits have been made that larger wage demands can also be met. Congress needs to watch these figures when it discusses corporate tax policy, and the effects which that policy is likely to have upon the availability of new capital. The public needs to understand something of these data when it discusses profits and prices and costs. Business management also needs to remember that to an increasing extent a company's price and profit policy, like its wage policy, is no longer entirely its own affair. Lower prices, even at the cost of somewhat lower net profits and the absorption of some costs, may be very smart, not alone because these lower prices create good will rather than inviting criticism, but also because actually, in the long run, more goods will be sold. This, even though substantial sales can at the moment be made at the higher price.

The Budget and Tax Policy

So far I have suggested some things about the likely curtailment of capital expenditures during 1948, and something about the danger of jumping to conclusions regarding the amount of profits actually earned in 1947. One other brief comment on another large factor in the business situation. I referred a moment ago to Mr. Truman's statement concerning tax policy. I want to stress the importance of a study of our Federal budget. It is not an easy thing either to read or to talk about. Too few people are interested in it or make any attempt to understand it. And so long as it remained within manageable limits, it really didn't make much difference. But those days are past—today it does affect business in many, many ways, and the public indifference to it is a most disturbing thing, particularly in view of the current importance of the budget. Mr. Thurman Arnold wrote in the "Harvard Business Review" a few months ago:

"Today we are desperately trying to convince ourselves that political government is only the temporal arm of vast business empires which follow the great principles of revealed economic truth. And so we find Congress trying to restore political government to its proper place by reducing government expenditures and removing government controls. Yet this attempt cannot hide the fact that only America is capable of restoring economic order in the world, and that business cannot do it without vast government expenditures. Just as we are preparing to return to normalcy, the Marshall Plan destroys our hope that government can be put back to its accustomed role. Reluctantly we are being forced into a vast project to furnish goods to starving peoples.

"The commitment seems too overwhelming to be possible of accomplishment. Yet the fear of Russian expansion has pushed us into the position of again being the arsenal of the democracies—except that it is an arsenal of food and production instead of weapons. Of course there is a threat to our industrial and political organizations, frozen as they are to the framework of a 19th century world. In the face of coming changes no investments appear to be safe."

Now, the President's budget, as submitted amounted to something over $37,700,000,000. For 1949, his estimate exceeds even this figure by $2 billion. Of the 1948 figure, Mr. Truman points out that five-fifths of this are the "costs of war, the effects of war, and our efforts to prevent a future war." He goes on to say that anly 21% of our expenditures finance the government's broad programs for social welfare, housing, education, agriculture, transportation, and general administration. But we may also add that this "only 21% of $40 billion is $8 billion, or almost as much as the total cost of government in the largest spending year of the 1930s, and more than twice the average of the '20s.

"If any one wishes to know why his taxes have climbed so high since prewar days, let him consider the national debt. This was exactly $256,673,365,697.75 on Jan. 30, 1948. Such a formidable array of numerals is almost beyond comprehension. To bring it down to earth, the debt amounts to about $1,770 for each person in the country. By comparison, the debt per capita was $308 in 1939; $240 in 1919, after World War I; and $12 in 1913.

". . . It is a matter of first importance that the debt should not get out of hand in the future. Historically, the world's most virulent inflation—those ending in the complete wreckage of the value of money—were accompanied by a succession of badly unbalanced national budgets.

"All this ties in with current problems of Federal spending and tax reduction. A large Treasury surplus is indicated for the present fiscal year. Since we cannot always count on budget surpluses, it is certainly sound policy to reduce the debt substantially during periods of high national income like the present. It is much less defensible to go on increasing Federal expenditures in peacetime. . . .

"No one wants to cut essential spending for national defense or otherwise. But many things which seem desirable to this or that group may not actually be essential. If we wish substantial tax reduction, furtherance of the debt retirement program, and assurance of a continuing sound budget position, we must be prepared to halt the tendency toward rising governmental expenditures." [2]

This is particularly true if profits are not always as large as they appear, and the future fails to hold for thoughtful men the promise of rich rewards of more recent years.

No Price Deflation?

Within our own country lies one of our biggest problems. Washington talks a lot about the need for anti-inflation measures, but it certainly does not want a general price deflation with the government debt what it is and government spending what it is. So we may well conclude that whether we like it or not, prices will never go back to where they were in 1940. In fact, one of the surest predictions one can make is that when prices start sliding in earnest and business profits show a tendency to contract seriously, the government—as far as it is able—will promptly change its present policy and use its influence to keep prices up. And it can do this in a variety of ways. It can give its support to a third round of wage demands; it can reduce income taxes in order to enable consumers to have more money for goods, or reduce business taxes to encourage continued expansion; it can relax the threat of credit restrictions; it can speed up the foreign aid program. Any one of these things—and certainly all of them combined—would undoubtedly keep prices from falling as soon or as far as they might. True, such action would only delay the inevitable readjustment; it might ultimately result in a more serious collapse than would otherwise come; it would still further accentuate the unbalance among the various elements in our economy. But the immediate end of preventing a decline would, for the moment, probably be achieved. These things are in the hands of Congress and the Administration, and I for one refuse to forecast what either of them will do—save for one thing—to play politics and do what they can to reassure their own reelection.

2 The Cleveland Trust Company *Bulletin*, Feb. 15, 1948.

The Foreign Situation

I referred a moment ago to the situation abroad. This is a subject in itself, and I have no thought of discussing it. International politics may upset any forecast or plans which we can make. I must confess, too, that I am reluctantly forced to the conclusion that the situation today is worse than it has been at any time since the war came to an end. I am afraid that we cannot get along with Russia. The rape of Czechoslavakia will be attempted in Sweden, Norway, Italy, and France. It is an atrocity, the seriousness of which is comparable only to the infamous pact with Hitler at Munich. There is a deadly parallel between the origin, development, and policies of the dominant group in Russia and the history of the Nazis in Germany.

Yet grave as this danger from abroad is, in many ways the more serious danger lies within our own country. One of our leading correspondents has very truly said, "Thoughtful men agree that the dangers threatening this country from within are far greater than those that threaten us from without. There is a general accord that a basic essential for the economic recovery of Europe is to meet and master the domestic crises caused by the alarming inflation coupled with a debt of unprecedented proportions and a Federal Government the size and cost of which is out of all reason. . . . With determination and sense this situation can be successfully dealt with. Unhappily, it seems clear that these qualities are not going to be used by those clothed with power and responsibility. On the contrary, their course promises to continue lacking in candor, in courage, and in reason. . . . Eight months before the election there isn't the courage in the White House or in Congress to make a vital fight for the safety of the nation as a whole against the selfish insistence of organized groups on their 'rights'." In the same vein, Mr. John S. Coleman, President of the Burroughs Adding Machine Company, said recently, "Russia is not our principal adversary. The opponent we have to defeat is confusion in the minds of men."

So, while we are waiting for the politicians to decide by what means they can best insure for themselves the largest number of votes, and while we are waiting for the outcome of the conflict in Europe, what are we to do about the business for which we are immediately responsible? There was a wise philosopher once who said that we should plan as though we were to live forever, but act as though we were going to die tomorrow. Perhaps that remark is applicable to our immediate problem.

Recommendations

What should we do in our dual capacity of advising with top management as to the business outlook, and of purchasing agents responsible for our own departmental responsibilities?

First, as citizens, let us bring what pressure to bear as we can by letters or otherwise, to get Congress and the Administration to really do something with courage and such statesmanship as is possible. Let us urge that the budget be pared to necessities. No one wants to cut essential spending for national defense or otherwise. But many things which seem to be desirable to this or that group may not actually be essential for anything except vote-getting and log-rolling purposes. If we wish a balanced budget, a furtherance of debt reduction, and a sound financial position, we must be prepared to halt this ever-rising tendency toward governmental expenditures. Then and only then can taxes be reduced with safety. Nor is this any time to cut individual income taxes, much as each of us like to contribute less. Let us remind them that the citizenry as a whole does not belong to any one of the specialized pressure groups (whose interests so often appear uppermost), whether they be farmers, unions, veterans, educators, or social planners.

Let me emphasize, too, that as citizens and as businessmen, we need to remember that neither Congress nor the Administration is entirely responsible either for what has already happened or what is to come. "The fault, dear Brutus, lies not in the stars but in ourselves that we are underlings."

Then, as businessmen, suppose we assume that over-all business in the United States drops off 20 to 25% later on this year, or in 1949. What effect would that have on our particular business, and what is equally important, what should we do to get ready for it? Clearly the effect would not be the same for all industries or for all businesses. But let's look at our own company — what would happen to it? Then, regardless of whether a decided break came on this particular date or on that one, we should be equally prepared for a continuance of good business or a decline. Do we have reasonable liquid financial resources? Are we keeping our inventories of in-process and finished goods down to reason? Are we exercising due care in the extension of credit to customers? Is our labor and personnel situation in as good shape as we can put it? Are we exercising conservatism in planning capital expansion? Are we insisting that the sales organization plans and estimates — keeps its enthusiasm and its optimism within reasonable bounds? Have we carefully scrutinized our accounting practices, with proper regard to an effective application of budgeting, adequate and scientific manufacturing cost control, and control over selling and promotional expenses? Unless we have done these things, we are surely remiss. **The time to do them is 1948—1949 may be too late.**

The Interest Rate Problem

(Continued from page 8)

the problem of the long-term interest rate? This brings us to our second question, "What statements have been made by public authorities on the subject; and how important are these statements?"

Our first concern is with the rate on long-term Federal obligations, since, although the problems of long-term private loans are related, they are by no means the same. It is possible to take from the statements made in recent weeks by President Truman, the Secretary of the Treasury, the Chairman of the Federal Reserve Board and the President of the Federal Reserve Bank of New York, material bearing directly on the policies which are intended by the Government and on the reasons why they have been adopted. I have made some selections from these statements; and at the cost of some time and at the risk of repeating what you may already know, I wish to present these selections as a group of statements that are of exceptional importance in estimating the outlook for rates. I should explain that these selections are not presented in the order in which they appeared in the original statements, but I believe that they give a correct impression of the material from which they are drawn.

President Truman, in his Economic Report to the Congress, released Jan. 14, 1948 included a number of highly significant statements on long-term interest policy. Here are several direct quotations: "A decline has been permitted in prices of bonds from the premium prices to which they had risen. No bonds, however, have been permitted to fall below par and it is the declared purpose to continue active support of Government bonds for the purpose of maintaining an orderly and stable market at a low level of long-term interest rates." "This policy does not permit the Federal Reserve to make effective use of the traditional method of limiting inflationary movements in the economy." "There have been proposals to solve this dilemma by abandoning the support policy. No such change in policy should be considered. The financial world should rest easy that the investment market will not be subjected to the demoralization which swept over it in 1920." "Affirmation of a policy of supporting the Government bond market as a continuing program of the Government requires the use of the other and less dangerous methods to restrain inflationary bank credit." "Such action as may be taken will not involve withdrawing support from the Government bond market." "The new bond buyers and millions of loyal Americans who enabled their country to finance the war are assured that the power which their Government possesses to maintain the value of their bonds will be exercised wherever necessary."

The most explicit statements on policy by the Secretary of the Treasury are to be found in a verbatim transcript of a press conference held by the Secretary on Jan. 22, 1948, reported in the Jan. 24, 1948 issue of the Goldsmith Washington Service, United States Government Securities Bulletin. The following direct extracts of the transcript from this Bulletin are presented to give the Secretary's attitude.

"Question: Mr. Secretary, on the Government bond market again, there is considerable feeling among some bankers that it would be a healthy thing in the anti-inflation drive to let them drop below par. The President's Economic Report seemed to indicate a subtle view to keep them at par.

"Answer: We have no intention of having them go below par in our thinking today.

"Question: You carefully qualify that with 'in our thinking today.'

"Answer: Leave that off, then, if you want to.

"Question: You said you have no intention of having them go below par?

"Answer: That is right."

The Chairman of the Board of Governors of the Federal Reserve System, Marriner Eccles, on Nov. 25, 1947, in a statement before the Joint Committee on the Economic Report and on Dec. 8, 1947 before the House Banking and Currency Committee discussed Federal Reserve policy. Several of his more important statements are included in the following quotations:

"Under present and prospective conditions, it is not only desirable but essential that the established 2½% rate on long-term marketable Government securities be maintained." "The structure and level of interest rates on Government securities which the System helps to maintain in the market have become the principal expression of Federal Reserve policy instead of the volume of purchases and sales." "A moderate rise in yields on Government securities will not prevent, and will only slightly restrain banks from selling securities in order to make loans. An increase in rates large enough to exercise real restraint on banks would generally be too great or too abrupt to be consistent with the maintenance of stable conditions in the market." "The Treasury would be confronted with a continuing puzzle in all of its constantly recurrent refunding operations. It would be entirely at the mercy of uncon-

(Continued on page 30)

The Interest Rate Problem

(Continued from page 29)

trolled factors in the market, if, indeed, conditions did not become so confused and chaotic as to demoralize completely any refunding operations."

The views of Allan Sproul, President of the Federal Reserve Bank of New York, are of particular interest at this time. Mr. Sproul has established an enviable reputation for expressing his independent opinions, and occasionally they have differed in important respects from those of the Treasury and of the Federal Reserve Board. As a result of Mr. Sproul's recent expression of doubts as to the desirability of the special reserve authority requested by the Board, there have been some who have wondered whether he is in sympathy with the policy of support of long-term Government bond prices. I have selected the following direct quotations from his remarks at the Mid-Winter meeting of the New York State Bankers Association on Jan. 26, 1948. "We have a responsibility for maintaining general stability in the market for Government securities which cannot be shirked." "A rise in interest rates to the extent necessary to have an appreciable effect on borrowers would threaten the entire structure of interest rates and Government security prices and could not be countenanced." "We can't treat the Government security market as we might a $50 million issue of the XYZ corporation. I am not a believer in more and more Government controls, certainly, but this is one control which I would not try to let go, voluntarily, under present circumstances." "Why should we support the Government security market, and to that extent circumscribe our powers and our actions to control the volume of credit?" "We can't bring about deflation by general credit action, in this situation, unless we bring about such an indiscriminate reduction in consumers' disposable income as to threaten the kind of disaster we are trying to avoid." "In my opinion we are doing as much as a delicate situation will allow toward imposing reserve pressures." "The market was given clearly to understand that the abrupt change in prices (on Dec. 24, 1947) did not represent a step in retreat from a policy of supporting the Treasury bond market. By word and action it was also made clear that, whereas previously the Reserve System had been a reluctant buyer, it would now buy Treasury bonds aggressively, at the new price levels, in such amounts as might be necessary to clear the market." "Our support of the Government bond market, thus far, has not reduced our supply of ammunition—we have more than when we started. And, if all goes well, and if a substantial surplus of Treasury receipts over Treasury expenditures is assured by fiscal policy, we can continue to sell and redeem Government securities as well as to buy them, and we shall continue to place restraint upon the expansion of bank credit, while continuing to maintain orderly conditions in the Government security market."

These then are the expressions of high authority as to intent of policy and as to the reason for policy. The expressions differ in emphasis, restraint and specificity, and there might be much discussion and difference of opinion as to the significance of this, that or the other phrasing. Yet the broad picture stands out clearly—unanimity as to basic policy objectives on the part of the President, the Secretary of the Treasury, the Chairman of the Federal Reserve Board and the President of the New York Federal Reserve Bank, together with determination to use the fiscal and monetary powers of the Federal Government to attain these policy objectives.

Are these important statements, in the sense that they were responsibly made? Are they worth studying as a means of trying to make up our own minds as to what the authorities intend? It is my own personal opinion that each statement was a carefully thought out position deliberately taken, and that taken together they give an unusually clear formulation of policy intentions. It is to be hoped that a new statement will be shortly forthcoming —to clear up ambiguities and to assess the situation as it has developed in the past month. Such a new statement is highly desirable to assist us in our thinking.

Can Interest Rates Be Controlled?

Having come to some conclusion as to what is really the intent of public policy with respect to support of the Government bond market, the next and third question on which we should have an opinion is this: "What are the powers of Governmental authority in the application of a support policy and what are the practical limitations of these powers?" This is a very important and a very complicated question. My impression is, that many people may be willing to concede that the Government has a support policy which is sincere, not too vague, and concurred in by the several agencies involved. But, nevertheless, from a practical point of view they believe that the policy is too ambitious and that the powers of the Government are not sufficient to give the policy realistic implementation. Some of my more suspicious—perhaps I should say more cautious — friends interpret the vaguer portions of the language used by the authorities as a symptom of their own uncertainty, as evidence that the authorities believe that unless everything works out all right, their powers are inadequate to their declared policy. Accordingly, it is necessary to examine the powers at the disposal of the authorities in some detail, in order to come to a conclusion as to their strength and as to their limitations.

The support policy hinges on one simple action on the part of the Federal Reserve, namely, to buy Federal securities at a price set by the Federal Reserve in quantities offered by the public. We must, therefore, determine what factors are important in affecting the ability of the Federal Reserve to buy Government securities at the Government's own price.

There are four factors, perhaps more, that affect the power of the System to implement a support policy. These are, first, the legal limitations, second, economic considerations, third, cooperative programs of private institutions, and fourth, the confidence of the financial community in the sincerity, desirability and practicability of the support policy. Let us examine these four factors more closely.

First, the legal limitations on the support policy. Under present law, reserve requirements will permit a net addition to holdings by the Federal Reserve Banks of Government securities in the amount of some $43 billions. This is about two-thirds of the marketable long-term debt outstanding and its retirement would reduce by nearly one billion dollars the annual income paid by the Government to the holders of long-term debt. Although it is hardly conceivable that the present legal limitation would be restrictive, nevertheless, if this should prove to be the case, a change in reserve requirements by action of Congress would permit the entire privately owned marketable public debt, when, as and if offered, to be purchased by the Federal Reserve. Politically, this would be a popular measure, since it would reduce public expenditures on interest account, permit tax reduction, and reduce the public debt burden which is unpopular with most citizens.

I think that it is reasonable to believe that there are or will be no legal limitations on the amount of marketable Government securities that the Federal Reserve will be able to purchase under a governmentally sponsored support policy. To be more explicit, I feel it can be taken for granted that the legal powers will be provided to permit the Federal Reserve to purchase the entire public debt if it becomes agreed public policy for it to be able to do so.

Economic Limitations of Control

The economic limitations on the power of the authorities to carry out a support policy are more difficult to appraise. These limitations arise from the fact that the support policy, involving the purchase of Government securities when and as offered, limits and indeed may restrict seriously the familiar powers of the Federal Reserve System to use open market operations for general credit contraction. In other words, the support policy removes from the Government one of its powerful instruments of credit control and therefore limits its ability to fight inflation. It is clear from the statements which I have presented to you that the authorities are well aware that a choice had to be made and that they have decided to support the bond market at the cost of losing the full power of open market operations to restrict credit inflation. Indeed, Mr. Sproul goes so far as to state that the present rise of prices is so largely due to specific shortages, particularly of foods, that the use of over-all general credit controls which would substantially reduce disposable income would be inappropriate and dangerous under present conditions. He does point out that the success of the support policy depends on cooperation with fiscal policy. As I see it, this means we should limit public expenditures to the minimum consistent with the efficient conduct of public affairs, that tax reduction should be moderate in order to assure a balance for debt retirement at high levels of employment, that adequate measures should be taken for the sale of Government savings bonds to the public, and that careful handling of export surpluses should be continued to reduce excessive and badly timed demands on our productive resources. With cooperation of fiscal policy, the support policy will be greatly facilitated. But the dramatic point is this, that the authorities have chosen to support the Government bond market, waiving their full powers of credit control through open market operations, without first making absolutely certain that all of the fiscal powers so desirable will in fact be in hand when they are needed. Is this sheer recklessness? Or does it express a judgment as to the lesser importance of unrestricted open market operations as compared with the greater importance of control of the long-term interest rate? These are questions which each man will answer for himself.

If the authorities have deliberately limited their powers to bring about deflation through open market operations, have they at the same time opened the door to becoming an affirmative factor for inflation? Not necessarily so, and probably not.

Bond Redemptions and Deflation

First of all, the Federal Reserve in buying long bonds does not add to available credit potentials so long as the Treasury is able to redeem Government securities on its own account. The redemption of Government securities depends on having a Treasury surplus, a surplus in the consolidated cash budget which includes the net income of social security trust funds. There have been no proposals for tax reduction that would jeopardize a surplus in the consolidated cash at present levels of national income. It is evident that if tax reduction does not go beyond measures presently proposed, and as long as there are inflationary pressures, the Treasury will have a surplus available for the redemption of securities. And if inflationary pressures disappear, the official support policy offers no problem on economic grounds.

It is nevertheless true that the support policy might require the purchase of more securities than could be redeemed out of Treasury surpluses. What then? The Federal Reserve would look to three possibilities in combination: net sales of savings bonds to the public, sale of short-term securities to the market, increase in reserve funds available to the banks.

Obviously the sale of savings bonds is the most helpful safeguard.

Sale of short-term securities to the market would be practical, but at what rates and in what quantities would be an uncertainty.

Effect of Increased Federal Reserve Credit

An increase in Federal Reserve credit outstanding would be the most disturbing factor in times like the present when the danger of inflation is in everyone's mind. Yet the inflationary dangers of an increase in bank reserves can be greatly exaggerated. The experience of the 1930's is still fresh enough to keep us from taking a purely academic point of view on the relation between available funds and actual borrowing. The initiative for credit expansion must be taken by the borrower and such expansion can and should be scrutinized by the banks. The mere availability of loanable funds in the banks does not in itself put expendable funds in the markets.

The economic limitations on a support policy are therefore affected by the amount of cooperation which the authorities receive from private groups. The banks have already started their own campaign to bring an awareness of the present seriousness of unproductive lending to the attention of every banker. Businessmen generally can show restraint in limiting their inventories to their operating necessities and postponing postponable capital investment. A better organized and more efficient construction industry could quickly reduce the cost of productive plant. A wisely conceived and executed savings bond program would not only sell savings bonds to the public but thrift and restraint in expenditure as well.

Probably no one of these cooperative measures will attain the success that might be hopefully expected of any one of them. But taken together, imperfect though each may be, they provide strong assisting measures for the Government's support policy.

Will Support Policy Succeed?

The fourth factor affecting the power of the Federal Reserve System to implement a support policy is the psychological, the confidence on the part of the market that the support policy will be successful. On this factor I find very little confidence that the policy will succeed or in fact that it can succeed. I will not attempt to analyze the reasoning, except to report that I find a surprising lack of confidence. Some people think the policy can be carried through the months of heavy tax collections, that is up to April 1st, others that it may be carried through the 1948 election on purely political grounds. These periods are far too short to reveal any real confidence on the part of these observers that the support policy of the Government will be implemented. Who cares about stability in the long-term money market if it is only going to last until November, 1948?

I have the impression that the authorities are surprised by this lack of confidence, surprised by the fact that the caution in their expressions of assurance has been interpreted as protective insurance against uncertainties undisclosed. They have forgotten that in our not too distant past public officials have hoped to use words instead of deeds to bring prosperity out from behind the corner.

However, the authorities can safely be patient. How long did it take to establish confidence in the pattern of rates? About two years. And once confidence is established in the support policy, it is a simple exercise in arithmetic to prove that the Federal Reserve will rarely have to buy a long-term bond at par as long as short-term rates are lower than long-term rates. All of which means that the struggle for control will then, if ever, take place in the short-term and intermediate market where the monetary powers of the Federal Reserve can be more independntly applied.

The confidence of the public can be won over a period of time. To win it will require both words and deeds—words on the part of all relevant agencies to make plain that there is uniformity of policy and that any necessary qualifying reservations apply only to situations that cannot be presently foreseen— deeds on the part of the Treasury and Federal Reserve to show unity of policy and execution and a complete willingness to use existing powers. Once so-called "wise money" believes that the controlled long-term interest rate is here to stay, as a fixed point of continuing public fiscal policy, long-term private rates will make their appropriate adjustments, and the powers of the authorities will be needed only for the occasional pressure of unanticipated requirements.

One doubt in the public mind can be easily cleared up, namely, "Can the Federal Reserve afford to buy all the long-term bonds that are offered to it by the public?" Obviously yes, since the purchase of long-term bonds by the Reserve from the public is a very profitable operation: it increases the income of the Federal Reserve Banks at no expense to the banks. The real question is: "Can the public afford to lose the income which it gives up when it turns its bonds over to the Federal Reserve to keep—perhaps forever?" Earning assets which are a riskless investment as far as payment of principal and interest is concerned are likely to be more highly regarded as they become more scarce.

Is Purpose of Support Policy Good?

In appraising the firmness of the support policy, we come next to our fourth question. "What purposes are intended to be served by existing policy, and are these long-term or short-term purposes?" If the purposes appear to be good and if they are long-term purposes, then it is more likely that the authorities will hold to their policies tenaciously, and less likely that these policies will be reversed by themselves or by their successors.

There seem to be three main purposes for the support policy. The first is to insure the orderly refunding and refinancing of the Federal debt at reasonable and predictable cost to the taxpayer. Included in this purpose is the development of stability of

price and rate as the basis for long continuing savings bond sales programs to be adequate for any emergency.

The second reason for the support policy is to provide a certain measure of equity for the citizens and institutions that purchased Government securities at par. It may be argued that the Government has only the obligation to pay interest and principal as they become due, and that intervening market prices are at the bondholders' risk. Whether this is true or not, the Government takes the other position, namely that fluctuations in the long-term interest rate will not be permitted to depreciate seriously the market value of a Government bond which was purchased from the Government.

The third reason for the support policy is to give more stability to the rates of interest for private capital and thereby to contribute to the confidence of business planning. The risks of business are many indeed, but they should not be made needlessly greater by uncertainty as to the interest cost of long-term taxable Government securities.

These are the purposes that the authorities have stated as the reasons why they have adopted the support policy, and why they have thereby limited their powers of operating freely in the open market. One may differ with the authorities as to whether the purposes are good enough to justify the limits that they have placed on their own freedom of action, but no one I think can contend that the purposes are not long-term purposes, or that the policy is a caprice of a presidential election year.

Objections to Support Policy

Question five is: "What are the objections to the support policy?" The most frequent objection that one hears is that it is "ag'in nature." We have already dealt with this criticism under our first question in showing that a "natural" interest rate is inconceivable in a modern economy. A more sophisticated objection is that the controlled low rate on long-term Governments limits the amount of private capital available for risky investment. Such controls means generally lower yields on senior securities than might otherwise be the case, and the investor will not buy a security on which he knows he is taking a chance at prevailing yields, preferring to keep his cash idle rather than risk a capital loss. As a result the institutional investor replaces the private individual in the capital markets and the needs for equity capital at reasonable rates cannot be met. There may be something to this argument, but there are so many more important reasons for the scarcity of risk capital, such as excessively high income taxes and double taxation of corporate income, that the harmful effect of the support policy can hardly be decisive, if indeed, it is harmful at all. The opposite position might be taken, namely that the support policy increases the availability of capital for business in that it eliminates the risks of severe changes in long-term money costs.

The support policy is also criticised by institutional investors who desire a larger income on their capital funds and who are not concerned about market prices on the securities they already own. However, the policy does not prevent the yield on private securities from fanning out above support levels and the institutions may well search for higher yields in the private market as new funds are put at their disposal.

Interest Spread Between Governments and Private Securities

We come at last to our sixth question, "What factors determine the relation between the interest rate on long-term taxable Federal obligations and that on private securities?" This question is important because in thinking about it we see that even if the long-term Government rate is stabilized, the long-term rate on private securities can vary considerably depending on the business outlook, the character of a firm's capitalization, the outlook for obsolescence and many other factors. Even the very best prime bonds will show some variation in the spread of yield from long-term governments. But the spread will have a relatively small range and will be determined by the availability and demand for near-riskless capital. If the spread between Governments and private prime bonds becomes excessive, Governments will be sold by the public to the Federal Reserve and the proceeds will be invested in private securities. The support policy, though not rigidly fixing the long-term rate for private securities, does nevertheless provide a limitation on too wide a departure from long-term stability. This influence of the support policy will be felt in sharply decreasing measure as securities of greater and greater inherent risk are considered for purchase by investors.

Conclusions

Having taken you through these six questions, I suppose it is only fair to tell you where I come out. Perhaps you can guess without being told, but I might as well make my position clear.

It is my opinion that a "natural" long-term rate of interest for long-term Government securities is unthinkable, and accordingly that a purely "natural" rate of interest for any securities is impossible as well. Therefore, since in any case we shall have an artificial interest rate, it is more important to discuss the wisdom and the powers of the authorities who control it than it is to denounce the rate which is determined simply because it is an artificial rate.

As far as the authorities are concerned I believe that there is a consensus that long-term interest rates on Government bonds should be kept low and steady, that long-term bonds will be purchased by the Federal Reserve to attain this purpose, even though full powers of credit control by open market operations may be limited for an indefinite period.

As for the price at which support will be maintained, I would not expect premium prices to be paid by the Federal Reserve if public demand for long-term bonds should restore some premium. I would not expect large premiums to occur without sales of long-term bonds by the Federal Reserve to the market. On the support side, I would expect support to be continued at or about par indefinitely, both in time and in amount. I think that a sharp break or a long slow retreat from par to 85, 90 or even to 95 is not in the picture. If the Reserve should decide to set a penalty price slightly below par, say at 99½—well, a retailer would still call that par. Such action might conceivably be taken if bonds are offered in very large quantities and it is felt that the seller should be required to show a loss on his books in order to get the advantage of a support price.

The reasons for the support program seem to me to be good reasons, good long-term reasons. They justify cooperation with the fiscal authorities, by banks, by businessmen and by the public generally. We should impose voluntary restraints on inflationary conduct and at the same time continue to do business in an orderly way with an orderly use of the credit facilities that a modern economy provides. Through such cooperation, we will be contributing to the foundations of continuing prosperity in our own country and of coming prosperity throughout the world.

Two Broker-Dealer Licenses Revoked

The Securities and Exchange Commission announced on March 15 the revocation of the broker-dealer registrations of two concerns. The license of H. F. Schroeder & Co., with offices at 115 Broadway, New York City, was revoked for alleged fraudulent securities transactions which started in 1945. The complaint stated that Schroeder willfully violated the anti-fraud provisions of the Securities Act by receiving an advance from a customer of $25,000 to purchase Missouri Pacific 4% General Mortgage bonds and using the sum to acquire the securities for his own personal account. The firm's books, the SEC contended, "nowhere reflected that these purchases were made on behalf of the customer," nor were confirmations sent to the customer. "Schroeder used the personal account thus established," the SEC said, "to trade actively in a number of securities in addition to the Missouri Pacific 4s." Merlyn Gerber, a partner of Schroeder, was absolved of any participation in the transaction.

The SEC also revoked the broker-dealer registration of the May-Phinney Co. and denied the application of the Washington National Co., Inc., both of Seattle, Wash. Herbert R. May, cited by the SEC as the principal offender, organized and owns a 99% interest in Washington National. The Commission cited, as offenses of the firm, sale of unregistered stock, fraudulent misrepresentations and the taking of secret profits.

Halsey, Stuart Group Offers San Diego Gas & Electric Bond Issue

Halsey, Stuart & Co. Inc. and associated underwriters on March 12 offered $10,000,000 San Diego Gas & Electric Co. first mortgage bonds, series C due 1978, 3%, at 101.39% and accrued interest. The bonds were awarded to the group on its bid of 100.8133.

Net proceeds from the sale of the bonds will be used to retire certain bank loans, the proceeds of which were used to finance in part its construction program, to reimburse the company for certain property expenditures heretofore made, and for further additions to its facilities.

The company is engaged in providing electric energy in San Diego County, Calif., including the City of San Diego, and in a portion of the southern part of Orange County; it also provides natural and manufactured gas in the City of San Diego and other communities. This territory has enjoyed remarkable growth since 1940 nearly doubling in population, and the anticipated decline in civilian population since the war has not taken place.

In 1947, close to 70% of the company's gross operating revenue was derived from the sale of electricity and about 30% from the sale of gas. Its gross operating revenue in 1947 amounted to $19,718,474 and its gross income, after depreciation and all taxes other than Federal income taxes, was $4,478,833; maximum annual interest requirements on all funded debt outstanding after this financing total $904,000.

Philemon Dickinson Dead

Philemon Dickinson, former senior partner in Charles D. Barney & Co., predecessor to Smith, Barney & Co., died in St. Mary's Hospital, Palm Beach, Fla., at the age of 73. He retired from the investment business several years ago.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government securities markets recovered from the March 15 money squeeze without too much effort, with the better tone apparently due to a combination of events, among which was a mild "preparedness psychology". . . . It is felt in some quarters of the financial district that a rearmament program would end the uptrend in interest rates. . . . Others attribute the better demand for Treasuries especially the eligible intermediates and longs to the belief that the inflation spiral has about run its course. . . .

BUYING

Buying has been in evidence in almost all sections of the list with certain of the ineligibles again moving above support levels. . . . The eligibles were being bought by non-banking institutions, particularly the middle-term maturities. . . . It is indicated that too many shorts were not paying expenses the way these institutions would like to have them, hence the switch into longer-term higher coupon issues. . . . A good demand was also noted for the longer partially exempts. . . .

PRO AND CON

There seem to be differences of opinion among money market followers over what may happen to the certificate rate. . . . Some hold the view that there will be an offering of an 11 months 1⅛% obligation on April 1, to be followed on June 1, with a (12 months) 1¼% certificate. . . . They point out that inflationary forces will continue to dominate and credit limiting measures as well as higher interest rates will be used to combat these forces until they are further limited, if not entirely broken. . . .

Others are of the belief that there will be no change in the interest rate on certificates on April 1, because there is no certainty yet as to whether the forces of inflation or deflation will be the more prominent in the not distant future. . . . The more time that is taken by the authorities before they make changes in short-term rates, will give them additional data on the broad economic picture which will be most important in determining what will eventually be the course of interest rates. . . .

Whether the trend of commodity prices and loans, which have been downward, is just a temporary condition that will be reversed in the near future, can be answered only with the passage of time. . . . A "flash in the pan trend" with a quick reversal, would no doubt bring about greater restrictive measures and higher rates for future offerings of certificates. . . .

FORECAST

On the other hand, if loans should continue to recede, commodity prices decline moderately and business remains good, as could be the case, there will most likely be no further changes in interest rates by the monetary authorities. . . . If economic conditions should deteriorate more than has been anticipated in some quarters, the chances would seem to be good that there might be an ease in the money markets which could result in lower yields for Treasury obligations. . . .

Until there is more time to evaluate developments, not too important changes are expected in interest rates, with the 1⅛% rate believed to be in vogue until at least June 1. . . . It could be that this talk about higher certificates rates is just another "Open Mouth Operation" or "Trial Balloon" engineered by the powers that be. . . .

BANK LOANS

What has been the trend of loans and commodity prices since the first of the year? Reporting member banks of the Federal Reserve System, from the start of the year, to March 3, showed a decline in commercial loans of $118,000,000 with the largest decrease coming in the New York City district, followed by St. Louis and Chicago. . . . The rest of the reserve areas reported gains with San Francisco leading, followed by Cleveland and Richmond. . . . Real estate loans during this same period increased by $109,000,000 which just about offset the decline in commercial borrowings. . . .

The San Francisco district again reported the largest gains, followed by the Cleveland, New York, Richmond and Kansas City areas. . . . Minor declines were shown by the Philadelphia and Minneapolis districts. . . .

COMMODITIES

Commodity prices have been gyrating all over the lot since the first of the year, with the trend on the defensive. . . . Dow Jones Commodity Futures Index, since the first of January, has declined more than 11%, whereas the recession from the high of the year (made on Jan. 21) has been just under 15%. . . . What might be considered enough decline in commodity prices, in order to blow a large part of the froth off the inflation head, is a matter of much discussion at this time. However, there seems to be some agreement that a not too substantial recession from current levels should do the job pretty well. . . .

NOTES

A good-sized buy order has been and still is supposed to be around for the 2¼s due 1956-59. . . . Most of the buying interest in this issue is reported to be new money with a minor part coming from switches out of other eligibles. . . . Savings banks continue to be buyers of the ineligible bonds. . . . The State of Ohio issue, which went very well, took some of the buying interest away from the partially-exempts. . . . The 2s due Dec. 15, 1952-54 are still being bought by out-of-town banks.

Chas. H. Drew & Co. Admits Knight, Wells

Charles H. Drew & Co., 40 Wall Street, New York City, announce that Philip A. Knight and Sheldon S. Wells have been admitted to general partnership in the firm.

Mrs. Maria H. Drew has withdrawn from general partnership.

Geo. J. Gruner, V. P. Of Lee Higginson

Lee Higginson Corporation, 40 Wall Street, New York City, announce that George J. Gruner, who has been head of the corporation's municipal department, has been elected a Vice-President.

As We See It

(Continued from first page)

We are interested in the subject — and we think all of us had better be interested — because of the effect that such a system of taxation must inevitably have upon the economy of the nation, and hence upon the lives and the welfare of every man, woman and child in this country.

Over-Spending

We are well aware that much larger amounts of money are spent by the Federal Government — and all other governments for that matter — than should be the case. We know, of course, that if expenditures were reduced as they should be, much less burdensome taxes would be necessary. We concede that the reckless rate of government expenditures rather than tax reduction as such is probably the most vital, or at any rate one of the most vital, issues of the day.

Yet, despite all this, and partly because we believe that the income tax schedules as they now exist are in substantial part responsible for fiscal profligacy, we suggest today that tax reform, particularly individual income tax reform, is a *sine qua non* of a return to the sort of lasting prosperity which all of us would like so much to see.

How many of us really realize what is taking place in this country? There was a day when a Ford, a Rockefeller, and a few dozen other individuals by extraordinary effort, and often assuming extraordinary risks, were able to build their annual income up to a million dollars or more a year. Such individuals in some instances, doubtless, wasted a part of their income in ostentation and the gratification of trifling personal whims, but, if so, they did not remain very long in this select company. Much the larger part of these enormous incomes "went back into the business" — or at least back into some business. The result was a richer economic life for us all.

Liquidated

What has become of all these people? In one sense, a financial sense of course, they have been liquidated as ruthlessly as Mr. Hitler and Mr. Stalin ever liquidated their political enemies. And as incredible as it may seem, there is a close resemblance of motives. Generally speaking, in this country at any rate, it was made politically profitable to "soak the rich"— and they were accordingly "soaked," and still are being "soaked." Franklin Roosevelt, one of the most effective of the popularizers of strange notions, did his work well. It is today almost impossible to obtain a hearing on this vital matter.

What happens to the man who must pay taxes on a million dollar income under existing law? Over $840,000 of his million goes to the Federal Government in income tax. He has about $160,000 left for his labors. If he worked on a 40-hour week — which of course he could not and earn any such sums of money — he would be working approximately 34 hours for the Federal Government and six hours for himself each week.

But, of course, this is not the whole story. If this taxpayer happens to live in one of the States which also levy an income tax, he must pay a very substantial part of his remaining $160,000 to his State government.

But this amount of money, even if all devoted to the purpose, will not buy many common stocks or supply much venture capital to American business.

Is this an extreme case? Of course. All cases where income is sizable are extreme. That is precisely the trouble.

To get into quite so unfortunate a predicament, one has to pay taxes on a million dollars income, but he does not have to be nearly so economically productive to be scratched pretty effectively off the list of large contributors to venture capital. Take the man who must pay taxes on $200,000 income. He finds his Federal income tax bill coming to the staggering total of about $150,000, leaving him with some $50,000 of his $200,000 income. If he, too, happens to live, or earn his income, in a State which takes a substantial part of the remainder in income taxes, he is the worse off.

We need not stop at this high figure. He who must pay a Federal income tax on $100,000 income has only about $36,000 left. Federal income taxes on an income of $20,000 leave the taxpayer roughly $13,000.

But even more important is the lack of incentive these individuals have to strive to build their incomes by still more strenuous endeavor and by the assumption of risks which men of smaller income can not afford to take.

A fact or two is worth citing in this connection. Why should a man with $50,000 income upon which he must pay Federal income taxes assume risks out of the ordinary and add hours to his already arduous toil in the hope that he might double his income to $100,000 by so doing?

If he is successful he will raise the income the Collector of Internal Revenue permits him to keep from $24,000 to about $36,000.

And if by prodigious effort he were again to double the income on which he must pay Federal income taxes —that is to $200,000? Well, in this way he could add another $14,000 to what is left after the Federal collector is through with him!

These are the men who, by and large, have in the past made this country the economic envy of every other on the globe.

Had we not better stop to ponder?

Controlling the Marshall Plan

(Continued from page 4)

stimulating effect on production!) Actually, too much rather than too little capital has been diverted in most European countries into permanent investment, such as houses and manufacturing plants, merchant ships and new machines, bridges and railroad equipment, public utility installations, etc.

Also, tremendous efforts have been made to compare imports at the expense of domestic consumption, and to boost exports. And the result? **The result is a continuous and rapid deterioration of Europe's balances of payments in relation to the Americas.**

Britain's Position

Britain's balance of payments is especially instructive. Labor certainly can not be charged with having neglected spending on durable capital goods. On the contrary, it has burdened an already overstrained economy with an overdose of long-term investments. Britain has made great strides in production, which is running today (allegedly) at 108% of the pre-war volume of output. But at the same time, her balance of payments has grown from bad to much worse.

Last year, the dollar deficit in Britain's international accounts—all payments due to the Americas, minus current payments therefrom—amounted to at least $4.1 billion. That is the amount by which her gold and dollar resources, including the U. S. and Canadian loans, have been depleted in a single year, while in 1946 she lost little over one billion dollars "only." This deterioration occurred in spite of having kept her commodity imports down to 75% of the 1938 physical volume, and in spite of having reduced military and similar expenditures abroad by about $0.4 billion.

To be sure, the figures refer to the sterling area as a whole, The United Kingdom alone accounted last year for better than one-half of the gap: **$2½ billion (against $1.46 billion in '46). But Britain is the banker for the sterling area: her "hard money" reserves and credit resources have to carry the brunt of the entire sterling compound's dollar deficit.**

The point is, that instead of reducing the deficit, the American and Canadian loans, have merely financed its vast increase. Small wonder that they did not last the four years for which they were intended. Britain's exports have grown last year, but her imports increased more. At least a net $400 million have been devoted to expanding British investment within the sterling area. Most important, her indebtedness to that area constitutes a permanent leakage in her financial reserves.

Note the fact, too, that since the American "loans" have evaporated last summer, and since Congress has shown reluctance in granting fresh ones, the Europeans are making serious progress in putting their houses in order. Italy and France have made painful strides toward balancing their budgets and normalizing their foreign exchange markets. Britain embarked on a new course by "persuading" the miners to longer hours, setting limitations on domestic subsidies, and reversing the foolish policy of progressively cheapened interest rates. This "disinflationary" course culminates presently in the attempt to stop the tide of wage hikes, a daring attempt, indeed, on the part of a Labor regime to challenge its own almighty trade unions.

But the yawning gap in Europe's international balances is still widening. For 1948, the 16 Nations' Paris conference estimated their combined dollar-deficit at nearly $8 billion. They need such huge amounts in the first Marshall year, allegedly, so as to reduce their combined deficits with the dollar area to $2½ billion in the fourth year—provided that in the meantime world market price stay put on the July, 1947, level that Russia will permit the West to draw $6 to $7 billion worth of raw materials from behind the Iron Curtain; and that Germany will recover pretty soon.

However, disregarding the optimistic nature of these underlying assumptions, the crucial question is whether the Marshall Plan will have more success in restoring Europe's financial self-reliance than the preceding dollar outpours have had. Unfortunately, there is nothing in that program that would relieve the drain on Britain due to the claims and deficits of the rest of the sterling area. Similarly, France and Holland are drained by their respective empires. In the case of Holland, restoration of exports from the East Indies—with the net proceeds to go to the Dutch—is an essential preliminary for any reconstruction program. In other words, the European Recovery Program has to be broadened into a Global Recovery Program if it is to be made effective.

Secondly, it is one thing to promote production and quite another to eliminate the deficit in the balances of payments. More production per se means more imports and more strains; and unless the expansion is undertaken in a perfectly balanced fashion, new disequilibria may be created. It is no use, as an example, to "dieselize" Europe's railroads and to motorize its agriculture unless (a) sufficient fuel oil is being made available at reasonable prices (a doubtful condition in view of the world-wide oil shortage and the pending troubles in Arabia); and (b) that Europe will produce sufficient exportable surpluses to pay for the huge quantities of oil it will need. A great expansion of steel capacities, as another example, is a dubious venture unless matched either by a proportionate increase in available scrap or in expanding coking capacity. Both conditions are very doubtful of fulfillment.

The examples could be multiplied. What matters is the fact that **increasing Europe's production does not mean automatically to decrease the gap in its international accounts.** As a matter of fact, if the production expansion overstrains the economic system and calls for continued regimentation inside and over the borders of each individual country, so as to restrain the inflationary consequences, then the disequilibrium in foreign trade may be intensified itself rather than to be cured. Forced industrialization such as the Marshall Plan implies, is a very dangerous experiment, especially so when it lacks the control and guidance of the profit motive (or of loss-fear). Enthusiastic planners might easily overdo it.

A Business-Like Management

As a substitute for the profit motive, Congress is determined to implement the Marshall Plan by a business-like management. An outstanding business executive, independent of the State Department bureaucracy, will administer the disbursement of funds. He will have to decide on the merits of each and every European project that calls for imports to be financed by ERP dollars. He may shift the funds from one project and country to another, or may withhold them altogether unless his policy advices are accepted by the recipients.

It will be an extraordinary task to plan and direct the economic life of 270 million Europeans, whatever authority or instrumentality is put in charge of the ERP. Even assuming that the knowledge and foresight such a staggering job presupposes is available: the mere attempt at wholesale industrialization on any such scale would unleash the same shortages and inflations which are largely responsible today for the progressive paralysis of Europe's balances of payments.

Controlling the Marshall Plan implies controlling all governmental and labor policies at the receiving end. To restore their foreign trade, Europeans would have to reform their fiscal and monetary systems, banking policies, foreign exchange techniques, etc. To counteract the inflationary effects of unprecedented capital-expansion projects, they would have to swallow painfully deflationary antidotes. European labor would have to be regimented.

What is the use of presenting the British mines with expensive coal-cutting machines, if the miners maintain or raise their daily 9 to 10% rate of absenteeism? We would have to dispatch a Commissar to dictate to Europe how much domestic bank credit it is supposed to enjoy, what taxes it should levy, how many hours its labor has to work, at what rates of pay and how intensively, whether and when it is permitted to go on strikes.

The Solution

The solution of the European problem, if there is a solution, has to be found by reducing the problem to its simplest ingredients. What we are up against is the problem of filling the hole in their balances of payments, a hole that deepens as we try to fill it. Instead of planting other people's production, we have to devise a workable method that guarantees that the gap, which threatens to swallow indefinitely billions of our annual income and to endanger our own financial stability, will be corrected.

To start on the negative side of the issue: the approach to Europe's troubles—and to our burden involved—must not and cannot proceed by way of planning and managing the whole subcontinent covered by the Marshall Plan. Still less can we embark on global planning and autocratic administration. **Europe must work out its own problems and American aid should not mean substituting our brains for theirs, nor our responsibility for their own.**

Fortunately, there is a simple way open to control the aid we provide—if aid we must—without meddlesome interference abroad. What we should be interested in is, to repeat, Europe's balances of payments. Their status and change can be gauged by the simple device of checking periodically on

their "hard money" reserves (including credits from the U. S.). The rise or decline of those reserves are as sure an indicator over period of time of the trend in each country's financial development as there can be devised. All we have to do is to watch those reserves to know whether the respective positions improve or deteriorate.

Evidently, a continuous rise of a nation's dollar deficit is a storm signal. Instead of trying to fill a bottomless barrel again and again, **our aid should be made conditional on a gradual improvement of the dollar (or gold) position of the beneficiaries.** Instead of forcing production of one kind or another, we should apply the medicine where the ailment is located, right at the balance of payments.

To do so, takes no elaborate machinery of administration, supervision, or management, no encroaching upon the political and economic autonomy of foreign nations. All we have to do is to lay down the rule as to the size of the permissible deficit in the international accounts of each individual country which we are supporting, with the proviso that the gap has to narrow from year to year. If France's international deficit was $2 billion one year, it should be, say, 20% less in the next, or a deficit "quota" of $1.6 billion only. If the quota is not met—if the loss of prime liquid asset (gold and dollars) turns out greater than the permissible amount—sanctions should be imposed by reducing proportionately the Marshall Plan benefits to France.

How the Europeans manage to meet their respective "quotas" is their business. Of course, they are faced with factors beyond their own control. But after due allowance for the inherent difficulties of the situation, there remains a very broad margin of possible improvement, depending on their own policies. That should be the prime objective of the Marshall Plan—if plan we must—to force them, without meddling in their affairs, to correct their interstate barriers and intrastate politics which are largely responsible for the vicious distortion of their economic systems, for the flight of capital from Europe, and the growing disequilibrium in its balances of payments.

Whether Europe's solvency can be restored in a visible future, is extremely doubtful. But its deficits against the dollar world must be reduced, if only gradually, so as to reduce the intolerable drain on our own resources which an export surplus of around $10 billion annually constitutes.

Werntz to Address Bklyn. Chapter, NACA On Corporate Reports

At the regular monthly meeting of the Brooklyn Chapter, National Association of Cost Accountants to be held at Michel's Restaurant, Brooklyn, on Wednesday evening, March 24, **William W. Werntz** of **Touche, Niven, Bailey & Smart of New York, Certified Public Accountants, will be the guest speaker.**

The subject of Mr. Werntz's talk will be "What Government Expects of Corporation Reports."

A graduate of Yale University and a member of the Connecticut Bar Association, Mr. Werntz was formerly Chief Accountant of the Securities and Exchange Commission in which capacity he served for a period of nine years. Prior to that time he was a member of the faculty of Yale University where he served as an instructor of accounting.

Raymond C. Morse, President of the Brooklyn Chapter of the National Association of Cost Accountants, will preside over the meeting.

The State of Trade and Industry

(Continued from page 5)

Steel requirements for oil and gas lines, as well as other pipe used in these industries, is larger than ever before in history. Other major factors seen tending to keep a strong steel demand for sometime, the trade authority notes, are: (1) Demand from the railroads where freight cars, passenger cars, rails, repairs and general maintenance are No. 1 problems; (2) container industry requirements; (3) ERP demands; (4) automobile demand stemming from realistic sales possibilities with respect to new models and better cars; (5) reduced construction costs which will start a flow of orders for municipal, state and industrial building, and (6) general demand from thousands of miscellaneous users of steel which is in no way sharply falling off.

The American Iron and Steel Institute announced on Monday of this week the operating rate of steel companies having 94% of the steel-making capacity of the industry will be 97.5% of capacity for the week beginning March 15, 1948, an increase of 0.9 points, or 0.9%. This compares with 96.6% one week ago. A month ago the indicated rate was 92.5%.

This week's operating rate is equivalent to 1,757,400 tons of steel ingots and castings as against 1,741,200 tons last week, 1,667,300 tons a month ago, 1,686,900 tons, or 96.4% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, the highest prewar year.

FREIGHT LOADINGS ADVANCE SLIGHTLY FOR WEEK

Loadings for the week ended March 6, 1948, totaled 792,571 cars, according to the Association of American Railroads. This was an increase of 1,482 cars, or 0.2% above the preceding week. It represented a decrease of 13,204 cars, or 1.6% below the corresponding week in 1947, but an increase of 6,382 cars, or 0.8% above the same week in 1946.

ELECTRIC PRODUCTION SLIGHTLY BELOW PRECEDING WEEK

The amount of electrical energy distributed by the electric light and power industry for the week ended March 13, 1948 was 5,284,641,000 kwh., according to the Edison Electric Institute. Although this was a decrease of 7,954,000 kwh. when compared with the preceding week, it was 520,798,000 kwh., or 10.9% higher than in the corresponding week of last year. The March 13 week was the 10th consecutive week that output exceeded the 5,000,000,000 kwh. figure. The peak was reached in the week ended Jan. 24, 1948 when 5,436,450,000 kwh. were turned out.

AUTO OUTPUT ADVANCES ON INCREASE IN OPERATING SCHEDULES

Higher operating levels by Chevrolet and resumption of schedules by Kaiser-Fraser accounted for the increase in automotive output in the United States and Canada the past week.

Estimated output of cars and trucks in the United States and Canada the past week amounted to 114,888 units last week, "Ward's Automotive Report" states. This compared with a revised total of 108,343 units in the preceding week and 105,496 units a year ago.

United States car output of 79,557 compares with 74,351 last week, while truck completions were 29,525 compared with 28,490.

"Ward's" estimates that 745,172 cars and 275,837 trucks have been completed in this country so far this year for a total of 1,021,009 vehicles. Adding Canadian production, the aggregate is 1,066,738.

A buyer's market for new automobiles is still far in the future, according to this trade authority, since "order backlogs throughout the industry are piled even higher than a year ago."

BUSINESS FAILURES SHOW SLIGHT DECLINE

Commercial and industrial failures declined a little in the week ending March 11, but continued to be twice as numerous as in the comparable week last year. Dun & Bradstreet, Inc., reports 102 concerns failing in the week ended March 14, against 113 the previous week, and 51 and 17, respectively, in the like week of the two preceding years. The current mortality level, however, is still only about one-third that of the corresponding week of 1939.

Eighty-four of the week's 102 failures involved liabilities of $5,000 or more, a decline from 93 last week but exceeded the 38 a year ago by a wide margin. In nine failures, losses exceeded $100,000 each. Small casualties involving liabilities under $5,000 numbered 18 against 20 in the preceding week and 13 a year ago.

Retail trade had the most failures, with 41 concerns failing, against 49 a week ago; they were over twice as numerous as last year. Twenty-five manufacturers went out of business with loss to creditors, off slightly from last week's 31 but exceeding their 1947 total of 21 by a small margin. Wholesaling with nine had the fewest casualties. The only increases appeared in construction and commercial service.

The week's failures were heavily concentrated in the Pacific States. The second largest number was reported in the Middle Atlantic States, followed by the East North Central, and the New England and South Atlantic states.

FOOD PRICE INDEX REVERSES COURSE FOLLOWING RISE OF WEEK AGO

Wiping out the rise of the previous week, the Dun & Bradstreet wholesale food price index fell back nine cents from $6.70 on March 2 to $6.61 on March 9, duplicating the six-month low recorded on Feb. 24. For three straight weeks the index has remained below the level of the corresponding date a year ago, the current figure comparing with $6.70 last year, a drop of 1.3%.

Individual price changes showed three times as many declines as there were advances during the week. Moving lower were flour, wheat, corn, rye, oats, hams, lard, butter, cheese, sugar, cocoa, eggs, steers, hogs and lambs. On the up side were barley, beef, coffee, cottonseed oil and potatoes.

COMMODITY PRICE INDEX OFF SHARPLY ON HEAVY LIQUIDATION

Heavy liquidation and selling pressure in agricultural commodities in the closing days of the past week resulted in a severe drop in the daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc.

After showing a steady to firmer trend for about two weeks, the index suffered its widest break since the sharp setback of a month ago.

A combined drop of 7.04 points in the two final days of the week brought the March 9 figure to 275.49. This represents a decline of 2.4% from the March 2 figure of 282.35. It compares with the recent low of 270.60 on Feb. 13, and it marks a rise of only 4.6% above the comparative 1947 level of 263.34.

Leading grain markets experienced sharp reverses in the closing days of the week. The decline was attributed in large measure to a lack of confidence resulting from the disturbed political situation in Europe and to disappointment over the failure of the government to announce mill allocations on flour tendered last week as a result of the PMA's re-entry into the market after an absence of about a month. Another influence was the greatly improved wheat crop prospect due to recent beneficial snow covering.

The drop in wheat wiped out all of the advances scored in the two preceding weeks.

Corn showed considerable strength in early dealings but later weakened on profit-taking and selling induced by the fall in wheat and other staples. Domestic demand for flour was very slow with bakers taking only small lots for immediate or nearby shipment. Demand for lard was only fair. After an early show of strength prices weakened in sympathy with the decline in other markets.

Trends in livestock values were irregular. In the final trading sessions prices fell sharply under greatly increased supplies at terminal markets.

Cocoa prices trended lower in limited trading. Lack of manufacturer interest was pronounced as it has been during recent weeks.

Activity in domestic cotton markets increased last week as prices continued to move irregularly. Values which had shown a firming tendency during most of the period, suffered a sharp reversal on Monday. A drop of almost 1½ cents per pound brought the New York spot quotation to 33.98 cents, a loss of 75 points from the close of the preceding week.

The decline was mainly attributed to fears of further delay in getting the European Recovery Program started, talk of new taxes to be levied on speculative trading in commodities and the unsettled political situation in Europe.

Strength in the market early in the week was influenced by the less than expected decline in the mid-February parity price for cotton and reports to the effect that credits had been arranged to finance shipment of cotton to Japan. Mill buying of the staple continued limited in volume with some traders reporting difficulty in securing sufficient quantities to meet requirements. Textile markets remained quiet with an easier price trend noted for some constructions.

RETAIL AND WHOLESALE TRADE CONTINUES TO HOLD ABOVE LEVEL OF A YEAR AGO

Extensive advertising and promotional sales of seasonal merchandise attracted favorable consumer interest. Retail volume rose moderately during the period ended on Wednesday of last week and continued to compare favorably with that of the corresponding week a year ago, according to Dun & Bradstreet, Inc., in its current review of trade. Consumers continued to seek medium-priced merchandise of good quality.

There was a moderate increase in the demand for Easter apparel with emphasis on medium-priced lines.

Women's Spring suits, dresses and coats sold well with fancy blouses and ballerina skirts continuing to be popular. A slight decline occurred in the buying of jewelry, though millinery and handbags were steadily requested. Men's lightweight worsted and gabardine suits were also sought and Spring coats sold well. The demand for shirts, pajamas and well-known brands of shoes was steady at a high level.

Consumer interest in lawn and porch furniture increased considerably in some areas with Spring cleaning and decorating supplies attracting favorable attention. Good quality dining and bedroom furniture continued to be in large demand and branded major appliances sold well. The dollar volume of hardware and paints increased moderately but a slight decline occurred in the buying of automobile supplies and accessories.

Food volume was steady at a high level and the supply of most foods remained abundant.

While fresh meats were in large demand, consumers continued to seek inexpensive cuts and meat substitutes.

Lenten specialties sold well with fish, poultry and dairy products in demand. Frozen food requests remained large, though the volume of canned goods declined slightly. Fresh vegetables were plentiful and reasonably priced.

Retail volume for the country in the period ended on Wednesday of last week was estimated to be from 7 to 11% above that of a year ago. Regional estimates exceeded those of a year ago by the following percentages: New England five to nine, East and Northwest seven to 11, South eight to 12, Middle West six to 10, Southwest nine to 13, and Pacific Coast four to eight.

Activity in the wholesale centers slackened somewhat with buyer attendance declining 9% for the week and 15% below the corresponding 1947 level. There was a slight decrease in wholesale volume during the week with total dollar volume of orders somewhat exceeding that of the corresponding week a year ago. Collections in some lines were less prompt than in previous weeks with some jobbers and distributors more cautious in granting credit.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended March 6, 1948, increased by 4% from the like period of last year. This compared with an increase of 4% *(revised) in the preceding week. For the four weeks ended March 6, 1948, sales increased by 5% and for the year to date increased by 6%.

Here in New York retail trade last week suffered a setback due to bad weather which affected Spring buying and as a consequence, stores registered losses up to 10%, with the average loss for the week set at 5%. Total volume for the week was also under that of the similar period of last year.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to March 6, 1948, increased 2% above the same period last year. This compared with a decrease of 10%* in the preceding week. For the four weeks ended March 6, 1948, sales increased 4% and for the year to date rose by 5%.

*In using year ago comparisons for the weeks ending Feb. 28 and Feb. 21, allowance should be made for the fact that in cities observing the Washington's Birthday holiday, store closings this year occurred in the week ending February 28 whereas last year they occurred in the previous week.

"Must Have Risk Capital or Government Ownership of Industry!"

(Continued from page 7)

fect on the public market by recent risk capital financing. On Jan. 2, 1948 Gulf Oil Corporation common stock sold at 75¼ on the New York Stock Exchange. Shortly thereafter it became known the company would have to sell 2,269,050 shares of additional common stock. The market price of the stock promptly declined to 60. The new stock was offered to stockholders at 51 to induce them to take it. By Feb. 10 the stock was quoted at 58¾. This means that Gulf Oil stock declined about 22.43% while the Dow-Jones Averages comprising common stocks of 30 high-grade companies declined in the same period only 8.50%. It means that Gulf Oil received over $55 million less for its stock on Feb. 10 than the market said it was worth on Jan. 2. The decline in Gulf Oil stock pulled down the other oil stocks with it, this in spite of the fact that Gulf Oil and the entire oil industry were earning at the highest rate in history. Gulf's high earnings were not sufficient to meet expanding requirements and when new stock was offered, the public markets were unable to supply the money on reasonable terms.

The American Telephone and Telegraph Company, whose common shares are widely owned by trust accounts and small investors, including employees and women and children, faced with ever-increasing requirements, has increased the debt of its system to nearly $3 billion. Their recent financing was through debenture debt convertible into common stock. Now suppose the market for common stocks should continue its present trend so that the above debentures could not be converted, suppose this company should then find it necessary to go to the public markets for hundreds of millions of risk capital—I can tell you that it would smash the market for all public utility stocks, still worse if that great company should ever have to stop construction. It won't take much of this sort of thing to produce utter panic in the public securities markets; it won't take much of such panic to spread fear among investors, business men and consumers. It could mean disastrous depression resulting from the present unworkable tax structure and the resulting failure of the public markets to supply risk capital. An emergency of this kind could mean just one thing—the government by necessity would have to step in and supply risk capital through the purchase of common stocks in American industry. This would mean government ownership.

Lack of Risk Capital of Vital Concern

The lack of risk capital is of vital concern to working men in all classes. Real wages can be increased only through increased production and increased share in that production. The profits from production are divided among labor, management, capital and taxes. More production means more profits to divide. Risk capital going into business provides new, more efficient machinery, increases production, profits and better jobs. If business is unable to get risk capital, if it has to pay too much for it, then labor will get either less or pay higher prices for necessities and gradually be out of jobs.

Let's examine the demand on the public markets for risk capital in the future. Economists who ought to know what they are talking about tell me that with our unprecedented national debt the gross national product must be maintained at or more than $194 billion per year for the next five years to keep us out of a major depression. At present the national gross product is running in excess of that figure, but it must be maintained. These economists say that this national gross product can be maintained if American industry is willing and able to spend $21 billion per year for capital expenditure for the next five years. In my opinion industry is willing and needs to make this expenditure, but the undertaking is immense. In 1938 capital expenditures of American industry were not $21 billion, they were $4.7 billion; in 1939 $8 billion; in the boom year 1929 $12½ billion. In the depression year 1932 the figure dropped to $1.2 billion.

How can this $21 billion per year be raised? Economists say that about $14 billion can come from the inside, that is from earnings and reserves for depreciation, that the other $6½ to $7 billion must come out of the public markets. At no time in history have the public markets faced such a task. In the post-war period 1922 to 1927 when our Government debt was about 1/12 of its present debt and when the public markets were functioning in orderly fashion, only $1.8 billon per year was received by the sale of new securities. The requirements for the next five years are 3½ times that amount. From 1931 to 1940 less than 1/10 of one billion per year on balance came from the public markets. From 1941 through 1946 there was no capital on balance provided by the public markets. War production was financed by the Government. Do we want the Government to continue to finance and ultimately own American industry in peacetime? If so why have we fought to save Europe for Democracy—if so why the Marshall Plan?

Regardless of what these economists say, business men know they face the following facts: Depreciation reserves on old plant values are not sufficient to replace plants at present high costs; that capital expenditures have been small the past 12 years; that the peacetime productive plant is pretty well worn; that their needs for risk capital are greater than at any time in history; that the public markets are running at the level of 1901; that the great mass of American people willing to take risks no longer have the funds after taxes to supply the demand for risk capital. Banks and insurance companies, by law, cannot supply it.

There is another demand on these public markets, namely the demand created by large estates selling common stocks in order to pay inheritance taxes. Some economists say that savings are at an all-time high, but the fact is that the demand for risk capital is at a double-barrelled all-time high. A great part of these savings are in the hands of people with incomes less than $5,000—they are unacquainted with common stocks, and place their savings in banks and insurance companies to become unavailable as risk capital.

Up to some 12 years ago our Federal tax structure permitted a class of people to exist who, by hard work, ingenuity or luck, or some of all, had incomes in excess of the amounts necessary to live on and pay taxes. This excess found its way into American industry by the purchase of common stocks. This not only supplied risk capital to industry but provided private ownership of industry. The mechanic, the farmer, the day laborer, the bus driver always had hope of and often succeeded in becoming owners of industry. Millions of little men bought the shares of stock in companies for which they worked and became part owners. The present Federal tax structure does not permit any such class of people to exist. It makes no difference whether a man has an income of $5,000, $50,000 or $200,000 per year, by the time he has paid taxes and living expenses there is little left to go into industry. Should this country go into a depression industry in emergency might well have to go to Washington for help meaning an RFC to furnish risk capital. That would mean Government ownership. Is that what we want? Let's make a decision.

Let's see how the present tax structure affects the individual. The rich man is not being hurt. The rich man has quit. He has accumulated wealth—he can live on it. The little man, the little farmer, the laborer, the garage man, the carpenter, the plumber, these little men who start in business with nothing but the determination to work, sweat, save and build—the man who starts alone, works alone, saves a little, buys a new machine to increase his production, then employs two or three men, these little men who start operating proprietorships, then partnerships, building out of earnings, knowing nothing about corporate structure — there are millions of them—there are some 3,700,000 tax returns of unincorporated businesses, and only some 500,000 returns of corporations. It is these little men who are being hurt. They haven't a chance to build business from profits and they are unable to incorporate because the risk capital is low in supply and has no inducement to go into small business. I suggest the following remedies:

Individual Surtax Rates

The one over-all shot-in-the-arm to be given industry and individual initiative is to limit the maximum individual surtax rate to 50%, and do so immediately. Some say this is not practical in an election year. I disagree. The Gallup Poll, released early this year, showed that the majority of people are not in favor of more than 50% of income going in taxes. Current editorials bear this out. A tax structure created in wartime that taxes 86.45% of any dollar of income is not helping anybody and is a danger to the national welfare. It promotes abnormal practice, unsound thinking and dishonesty throughout the land. We see corporations increasing debts to an unsound extent because individuals can't supply risk capital—we see private ownership being destroyed — we see businessmen basing every move on taxes, but when they go to lawyers and tax experts they can't get the answers. A great mass of citizens spend untold time in trying to figure ways to escape or survive in spite of taxes—in signing returns that they do not understand. This breeds distrust of the finest government in the world. Businesses are providing expense accounts, often padded and wasted. There are black markets and grey markets—there are individuals accepting cash for their services and not returning these receipts as taxable income and tax evasions are running at fantastic figures. If the surtax rate were limited to 50%, based on estimates submitted by the Treasury to Congress in 1947 it would mean a loss in revenue to the Treasury of less than $850 million, about 2.2% of total revenue. No tax expert could ever convince me that this loss would not immediately be more than made up by men jumping to their work with a bang—initiative and ingenuity, again on the alert to create, to produce, to save and to invest. The little man could become an owner in industry, the little proprietor could save to build his business. The American people are a great and generous people—they are willing to go 50-50 with their government, but they are not going 86-14 except in time of war. Our taxing authorities felt it wise to quickly reduce the wartime 85% excess-profits tax on corporations—with the war three years over, isn't it time to apply the same reasoning to the little proprietor and to the individual who owns finances operates and makes the corporation go? Time is running, and running rapidly. Today good men are unable to accept greater jobs and greater responsibilities if it means moving from their communities because they cannot incur the expenses of such moves. According to the New York "Times" article of Jan. 19, 1947, reflecting opinion of internal revenue spokesmen, tax evasions are running at over $4 billion a year. This places wealth and power in the hands of unscrupulous people at the expense of those who are honest. That amount is four times the amount brought to the Treasury by maintaining individual rates in excess of 50%.

Capital Gains Tax

The present capital gains tax bringing insignificant revenue to the Treasury is having a decided effect on the national economy. I understand the Treasury Department has not made a practice of publishing revenues from this tax. Property cannot be sold at a profit to go into new business—25% of the profit goes in capital gains tax, meaning the untried new business must be 25% better from the start. Even capital lying idle has no incentive to go into new business because the income is taxed away, and if the new business fails only negligible credit of the loss is permitted to apply against ordinary income. If a man bought a home in 1940 for $10,000 and sold it in 1947 for $25,000 he would have a tax of $3,750 even if he had to use the $25,000 to buy a new house in a new location where his business takes him. He had no profit in fact, but pays $3,750 tax on fictitious gain. Whenever the question of changing an investment comes up, invariably the investor wants to know, "What will the tax be?" Those who wish to retire from business are generally unwilling to sell the business and pay the tax—young management is unwilling to buy because unable to pay for it out of earnings—this means hired management and absentee ownership, not healthy to our social order. The capital gains tax accentuates fluctuation in the market for common stocks. When the market is rising, owners cannot sell stocks held under six months as most of the profit would go in taxes. After six months 25% of the profit would still go, so the supply of stocks coming into a rising market is limited and causes undue rise in prices. When the market is declining this tax encourages selling and accentuates a down-trend. If a man sells stock held less than six months his full loss is recognized, so there is added incentive to sell when the market is declining. There are sound reasons why no tax whatsoever should apply to exchanges of property and sale of capital assets. However, if we must retain this tax the rate on long-term capital gains should be promptly reduced from 50% to 25%, resulting in a maximum tax of 12½% of the gain. Loopholes now in the law where capital gains taxes are deferred and often reduced should be eliminated. The above proposed rate reduction would provide incentive for risk capital, would remove serious impediment to business, would encourage the free flow of investments in commerce into the hands of the most advantageous holder, instead of being frozen in the hands of present owners; would lessen the taxes now often imposed on fictitious gains, and in my opinion would actually increase the revenue to the Treasury.

Taxes on Proprietorships and Partnerships

I have attempted to show that this type of business has no chance to build out of earnings. Further, it has no chance to build reserves for hard times. My own business, by necessity, has been a partnership for some 23 years. In the depression of 1932 we never let one employee go on account of the depression. We had reserves to live on. Today we have built an organization of splendid young men and young women who are making that business their life career. We know that if a depression came we would have to close offices and cut off employees. The partners are taxed on all profits from the business at the high individual surtax rates, leaving no reserves in the business. We have a Profit-Sharing Pension Plan for employees, but under the law a partner cannot participate. There is neither incentive, sound judgment nor fair practice to continue to build an organization of young men and young women when we know full well that reserves cannot be built up to take care of hard times. There are millions of such businesses penalized because they are operating as partnerships rather than as corporations. The Federal tax structure should be amended immediately so that this type of business can be permitted to fare as well as a corporation rather than be discriminated

BOOK VALUES, NET WORKING CAPITAL PER SHARE

Issue—	Approx. Market 3-4-48	*Book Val. Per Share	*Net Quick Assets Per Share	1947 Calendar or Fiscal Year Earns. Per Shr.	1947 Divi-dend	Approx. Yield %
Atchison, Topeka & Santa Fe Ry. Co.	90	$316.00	$51.87	$17.11	$6.00	6.8%
Avondale Mills	19	23.96	23.32	†§10.00	0.96	5.1
Baldwin Locomotive Works	13	31.78	16.69	1.00	1.00	7.7
Bendix Aviation Corp.	28	40.84	29.80	2.75	2.00	7.1
Douglas Aircraft Co., Inc.	56	122.19	96.92	†Nil	2.50	4.5
Dwight Manufacturing Co.	37	40.56	34.54	17.98	4.50	12.2
Firestone Tire & Rubber Co.	46	84.28	74.34	13.46	5.00	10.9
International Harvester Co.	86	101.63	54.95	10.07	3.65	4.2
Interstate Department Stores, Inc.	18	27.61	28.06	†4.50	2.00	11.1
Lockheed Aircraft Corp.	16	31.60	24.55	†Nil	None	---
Mack Trucks, Inc.	47	80.55	57.59	†12.50	5.50	11.7
Montgomery Ward & Co., Inc.	50	57.83	51.97	†8.60	3.00	6.0
National Department Stores Corp.	15	29.89	25.77	†4.50	1.50	10.0
Swift & Co.	32	50.89	34.87	3.77	2.10	6.6
The Texas Co.	54	63.83	24.38	†7.50	3.00	5.6
United States Steel Corp.	70	142.08	72.28	‡11.66	5.00	7.1

*From latest available report. †Estimated. ‡Preliminary. §For fiscal year ending April 30, 1948.

against and possibly knocked out of business completely. Partners and proprietors should share in pension trusts just as officers of corporations. There is already a bill in the House, H.R. 5143, dealing with taxes on proprietors and partners. It has great merit, deserves full exploration and consideration.

You gentlemen may well feel that I am an alarmist. It is time to get alarmed when the public markets are unable to supply risk capital to business earning at an all-time high. It is time to get alarmed when in the midst of apparent prosperity we are sitting on a keg of powder, with a tax structure which, coupled with unsound policies of the Federal Reserve System, is destroying public markets that can throw business into panic. It is time to get alarmed when the tax structure is such that individuals throughout the land in their effort to survive are forced to unsound thinking and even dishonest practices. It is time to get alarmed when the tax structure is leading directly to the result that no class of people can exist who by hard work and ingenuity are able to provide private ownership for American industry. Looking squarely at this election year, I say that the national issue today is not only the Marshall Plan, Russia, Palestine and Greece, it is "private ownership or government ownership of American industry." Industry must have risk capital and in increasing amounts. If individuals are unable to supply it, the government by necessity must. It seems to me, in preparing our peacetime tax structure we must first decide what we want. Do we want a class of people to exist who can own and finance industry, or do we want government ownership?

The great mass of American people know we face the greatest responsibilities in all history and the greatest opportunities. I believe they are prepared to understand the necessity for change in a war-tax structure, a structure that with slowing demand for necessities could produce panic in the public securities markets, depression, possible change in the form of government, destruction of the national economy, and along with it destruction of national defense.

More Risk Capital as Incentive for Sound Industrial Future

(Continued from page 6)

not permit my going further into this wage-and-price question, except to say that in our electrical industry alone we know of many million dollars' worth of modernization and expansion which are being held up until firm, long-range prices can be quoted and relied upon. Of course, such prices cannot be quoted until wages and other costs are stabilized.

Certainly No. 1 is, of course, that old familiar, taxes. To that topic I shall return in a moment.

Sources of Venture Capital Drying Up

There is one more major stumbling block, and that is one-half certainty that the sources of venture capital are drying up, and one-half uncertainty as to how and whether that once-mighty American river can be made to flow freely again.

I should like to talk about this last obstacle to progress; why it is an obstacle, and what can and should be done to remove it. I must not appear to over-simplify a complicated situation; but I am satisfied that if the right remedy is applied to this particular ailment, and soon enough, it will help greatly in the relief of other ills.

Last year, according to testimony of the Secretary of Commerce before the House Ways and Means Committee, the capital expenditures of American corporations total $26½ billion. More than half—$14½ billion—went for additional plants and equipment; $7 billion for enlarged inventories and $5 billion to carry increased accounts receivable.

Where did the $26½ billion come from? First and most of all, from retained profits—over $15 billion from the accumulation of last year and previous years. $3 billion more were accounted for by increase in accounts payable; $3½ billion came from bank loans, most of it, naturally, of short-term character; so $3½ and $3 billion make $6½ billion of new corporate debt. That leaves $4¾ billion described by the Secretary as "new issues." It is only 15% of the total for the year; but there is a very large insect even in that small box of ointment, and here it is.

Of this last $4¾ billion of "new issues," 74% were in bonds and notes — another form of debt, which makes the total of new debt $10 billion. Only 26% were in stocks, of which 13% were preferred, and an equal percentage were common. And that 13% of $4¾ billion represented just a little more than 2% of the $26½ billion total of corporate expansion for the year—only 2% that may be regarded as genuinely new venture or risk capital.

This condition was even more striking in 1947 than in 1946, when 41% of new issues represented preferred and common stocks, and [illegible] In the case of manufacturing industry, it promises to be still further accentuated this year, when a McGraw-Hill survey indicates that 84% of the funds needed for capital programs will come from the companies' profits, surplus and reserves.

Is Postwar Expansion Nearing End?

If, as this same survey shows, postwar expansion by manufacturers is nearing its end, we need not look beyond the figures I have just quoted. Industry cannot hope to maintain its recent pace of expansion out of past profits, which are now almost completely committed; or out of borrowings, which add fixed and prior charges and which will not be so readily available in the near future as in the recent past.

There remain two possible sources—the one, current profits; the other, new equity or venture capital. While corporate managements probably will continue to plow back a portion of profits into capital betterments, this source is threatened in many cases by higher costs and narrowed profit margins.

Until now, practically everything I have said has related to the established and recognized concern. I need not do more than remind you of the added difficulties faced by the new and untried business—the type of enterprise so much needed, so large and essential a part of our national growth in earlier periods. It has no profits, either to spend or to exhibit to the prospective lender. Even more than the established company, it must look for salvation to the providers of venture capital. Not to banks, or insurance companies, or foundations or institutions, or others who must require a high degree of security. The new business, even more than the old, must find venture capital; must persuade those able and willing to take a chance that here is a chance worth taking.

Venture Capital a Vital Necessity

That venture capital be sought out and persuaded to accept employment is a matter of vital necessity, not just to individual business men or to all business; it is just as much a requirement for government; it is most of all important to labor. If present levels of production and consumption are to be maintained; if 60 million jobs are to be preserved, and room made for the 600,000 additional workers available each year; if the government is to collect enough in taxes to meet the budget and make payment on the debt — if these utterly necessary things are to continue, then we must provide the inducements which will recreate venture capital and cause it to flow normally and productively again.

If the nation wants this capital to go to work, what wages have been offered to its owners? Mighty high, say some; too high, even. Look at corporate profits in 1947; more dollars than ever before. Look at the prices on the exchanges; so low that the average yield of all the dividend-paying common stocks on the New York Stock Exchange last year was 6.3%. Twenty-five per cent of all those stocks were selling to yield 8% or more. What more would any investor want? What's the matter with such wages?

Just this, as all of you know. What is wrong with them is that they are not high enough after the tax collector has taken his bite. This wage increase, to the owner of existing and potential venture capital, is one increase that is long-overdue; and it will be in the ultimate interest, not just of the owners of this elusive venture capital, but of everyone.

The Wage Rate to Capital

Let me be specific about this wage rate which business has been offering to capital—to risk capital, remember, the sort of capital that gets no return if things go badly for a time, that may be completely lost if things turn permanently sour. Let me take Westinghouse as an example; what is true of Westinghouse is true in essence of all corporations.

During the past year we paid common dividends of $1.25 a share. That was the first raise our stockholders received in six years; they had been getting $1 a share. In order to pay that $1.25, we first had to pay Federal and state income taxes totaling 85 cents a share. Our stockholders are all sorts of people, paying surtax rates ranging from 19 to 85%; but let us say the average income tax paid on the $1.25 dividend was 50%. In that event, the stockholder on the average kept 62½ cents out of an original $2.10, and a total of $1.47½ went to the tax collectors.

At the average price at which our common stock sold on the New York Exchange last year, that represented a net return to the stockholder of slightly over 2% on his investment. With that remnant, no doubt, he could then pay the other taxes levied on him by Federal, state and local governments. This shows how fictitious are the apparently high yields of common stocks, and why stocks of some of the best-known companies have been selling at only six, seven or eight times their 1947 earnings. Is any more evidence needed as to why some individuals buy tax-exempt bonds, why some put their money into savings accounts, why others buy insurance and real estate and commodities — anything, indeed, but common stocks?

That was the cash return the stockholder got. What about the security of his investment? What about the allegedly high profits so many companies made? Well, talking again of our own company because I know it best, our profits were high, in terms of dollars. But they represented a return of not quite 7% on sales; though increased volume is expected to accelerate the profit ratio, and our 1947 sales were five times those of 1928, our profits were only three times as large. By any reasonable standard of security of investment, of insurance against the larger risks taken, of building surplus in good years to provide against leaner periods, our profits were too low rather than too high. Just as, I am sure, yours were.

Not many years ago, Westinghouse built numerous fine plants at an average over-all cost of $4 a square foot. Today, similar plants cost $10 to $12 a square foot to build and equip. Like yours, our depreciation allowances are too low, and make profits more apparent than real. Like yours, our inventories are high-priced. Like yours, our break-even high point is higher than ever before —more than three times as high for us as in 1940. Like you, we have invested most of our profits and surplus in plants and inventories; like many of you, I imagine, we have borrowed large sums which we must repay either from future profits or from future investment by those who have this hard-to-get, take-a-chance venture capital.

Who are these people whose help we need, and to whom we shall have to offer higher wages if their help is to be had? All sorts, as I have said of Westinghouse stockholders; certainly all sorts, in view of the fact that there are at least eight or ten million corporate stockholders in the country. There are too many for all to be rich; of course few of them are really poor. According to the latest available figures, these were their average holdings in common stock of three of the largest corporations:

	Shares
American Tel. & Tel.	30
United States Steel	52
General Motors	108

The average AT&T common stockholder received $270 in dividends during the last year; US Steel, $260; General Motors, $324. The average Westinghouse common stockholder owned 200 shares, and received $250 in dividends.

What is needed to induce these individuals, and others like them, to add to their present stake or to make their initial investment in America's future? What would be most likely to lead any of them to buy, say, five more shares of AT&T, or 10 more of Steel, or five or ten shares of some smaller, perhaps utterly new and unknown corporation? Would it be a reward that would penalize the rest of our people, or would it be in their ultimate interest as well? Is the solution reasonably simple; is it fairly easy to apply?

Eliminate Taxation of Dividends

I think there is a satisfactory answer to all these questions. It is necessary only, I think, to eliminate the present double taxation of dividends, and to provide that dividends in the hands of the stockholder shall be free of income tax liability. The existing practice is inequitable; I might even question it on ethical grounds; but its greatest fault is that it stands firmly in the way of what this nation and its people need most in the way of enlarged productive facilities, lower costs and prices, higher living standards and continued full employment.

Our tax system, as Sumner Slichter has said, seemingly has been devised for the annihilation of capital. The system has many faults, and needs many improvements, but this is no time to attempt a discussion of all of them. Certainly, however, the double taxation of dividends has done more than any other single cause to obstruct and prevent the most desirable utilization of capital. Certainly, too, elimination of this tax provision would do more than anything else to promote widespread investment, to reduce corporate debt and fixed charges, to bring new enterprises into existence, to speed up the progress of our whole national economy.

Such a step would be entirely in the interest of the wage-earner or salaried worker. The investment now required to create a job in manufacturing industry is $8,000 or more; a sum which must be earned and then saved by someone before it can be invested. Every bit of that investment will during its lifetime produce many times as much in wages as in profits and dividends. Today, employers generally understand that high wages are necessary to create markets for their products. Equally, employees should know that fair wages for capital are necessary to the creation of jobs.

Industry needs more machines, more tools, more research, new and better products, more promotion and wider distribution, if production is to be increased and additional jobs created. The nation needs new businesses, new industries. For 75 years, more than 20% of our national income went into such channels, and the country prospered and grew. Unless we can restore that condition by giving renewed incentive to saving and investment, our whole nation will dry up just as the sources of life-giving capital have dried up in recent years. On this point American history is clear; we have had general prosperity and a good living for all our people only when there was a free flow of investments into improved productive facilities and new businesses.

If you agree with me both as to diagnosis and remedy, I hope you will do more than tell me so. Prompt, concerted and nationwide action is needed. Enlist your business associates and your stockholders; particularly, enlist your employees and any labor organizations which represent them—for this is truly to their benefit. Urge this step on your Congressman and your Senators, and upon the President and his advisors. If we are to have that additional $50 billion worth of industrial expansion in the next five years, this is the most certain way to bring it about.

There is a rather widespread belief that the American taxpayer, who in our early history was so sturdy and vigorous in opposing crippling and inequitable taxation, has become punchdrunk and helpless from the events of recent years. I do not believe that; I do believe that if our people are shown the dangers of this present situation, and the advantages which will come from its cure, they are just as capable as ever of fighting for their own and the country's welfare.

Has the spirit of venture and enterprise died out among us? I do not believe that, either. I am convinced rather that it requires only the proper incentives to make it flourish as strongly as ever. Let us provide those incentives. Let us give our people a worthwhile goal, and they will reach it.

New Chg. Exch. Member

CHICAGO, ILL. — The Executive Committee of the Chicago Stock Exchange has announced the election to membership of George C. Riley, President of Edward Brockhaus & Co., Inc., of Cincinnati, Ohio. The Exchange now has 160 member firms.

With Blyth & Co.

(Special to THE FINANCIAL CHRONICLE)

FRESNO, CALIF. — Ralph H. Rowland, Jr. has been added to the staff of Blyth & Co., Inc., Rowell Building.

Merrill Lynch Co. Adds

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.— Robert J. Woodruff is with Merrill Lynch, Pierce, Fenner & Beane, 301 Montgomery Street.

What Foreign Trade Means To Us

(Continued from page 12)

plan to industrialize and enslave the whole eastern part of the globe. This great effort in Europe and Asia cost us over one million lives and over $300 billion. With that as an entrance fee, we surely must stay for the big show.

We have demonstrated the might of a free people in war. Do we now admit that those same people have no solution for, or will not fight, for peace? We cannot haggle about the fine points of differences between the democrats and republicans while Rome burns. We cannot as a people permit political expediency to make a football of the ills of the world. We must project our funds, our "know-how," and our technique into the more backward countries of the world, and by increasing their productivity—their output—bring them up into suppliers and consumers of world goods. Our only hope is a plan of action nonpartisan but sound, which will inspire hope and courage in a fast despairing world. Our only hope is a resurgence of world trade on a high rate of turn-over, with peoples everywhere back at work producing so they can sell—selling so they can buy—and in that process enriching the economy of their country and achieving a better standard of living.

Impediments to Foreign Trade

Before this can be done I feel that we must eliminate several impediments to world trade. It does not seem possible to me to achieve a high rate of turn-over in foreign trade when currencies are all artifically "pegged" as to their value, and even the basic commodity — gold — is held in political bondage. There must be a free market for gold—the value of gold must be determined in the market places of the world and not by government edict. We peg the price of gold at $35 and ounce. Should it be $20, $50, or $90? No one knows except that outside the legal restrictions of the United States, and in some areas where gold can be traded, the price is as high as $90 an ounce. Let man decide whether he wants gold or goods and in what proportion and at what price, and when this basic factor is corrected, currencies should be allowed to reach their market value in terms of that free gold, so that the medium of exchange for exports has a known value.

France pegged the franc at 119 to the dollar and then closed its eyes to a black market which put a much higher evaluation on the dollars. Officially all deals for export were at the rate of 119 and at that rate French goods could not move into the world markets as they were too expensive to engender a mutually advantageous trade. The franc has now been cut adrift from government controls and it will seek its true value. When this happens French goods will again start moving across the borders into other countries.

Imports into France were restricted because as they were unable to sell they were unable to buy. When goods start moving out of France the foreign exchange funds will be generated so that France in turn once again can enter the markets of the world and buy the things she so badly needs. The restrictions in other words stop the trade, and the stoppage of trade then forces still more restrictions. It is time to reverse the process and let the traders of the world take over the job of getting goods moving free both in and out of the various countries.

China keeps books on a currency that to all intents and purposes is worthless and must be repudiated and a new monetary basis found before China can hope to start the process of regeneration.

There is no broad overall formula or palliative that can relieve the situation the world faces today. Some countries cannot export or import because their productive facilities are inadequate. Other countries are stymied in entering the markets of the world either as buyers or sellers because their internal financial structure is out of balance. They must be studied as a doctor studies his patient. No doctor enters a hospital and prescribes a tonsil operation for all the patients. A specific remedy must be found for a specific illness and that goes in world economy as well as in medicine.

Effect of Tariffs

It is not particularly popular to speak out in favor of free trade here in the United States. How can we protect our standard of living in the United States against the low standards of most other countries of the world if we allow their products to come into this country without some kind of artificial protection? What a terrible condemnation of technology and modern production methods this feeling really is. If we have to fear most of the poor unequipped countries of the world today in competition with our highly specialized system of manufacture in the United States, we have made a serious economic error. We can pay a man more in this country for a day's labor because that man produces more. He produces more because, through human ingenuity and machinery, we have substituted mechanical power for the drudgery of human efforts. If we are afraid that the peasant working on a hand loom can compete with the marvelous industrial empire that we have built up in the United States, we have indeed passed the nadir of human effort. If we are afraid of the British coal miner who mines less than one-half the quantity of coal per day than we are able to produce in this country per man, we had best go back to the antiquated methods of 100 years ago. We had best admit that we have made a God of mass production and that he has feet of clay. We had best admit that our standard of living is not due to the fact that our individual men and women produce all out of proportion to a foreign counterpart, and that we would be better off with the oxcart and the hand press than we are with our modern automotive transportation and the fabulous high speed presses that dominate our economy.

Have Much to Fear From Foreign Trade Stalemate

No, I think we have much more to fear as a challenge to our way of life and our standard of living in a stalemate in the flow of international trade.

We are afraid, for instance, of communism and sit in our wellfed concern and wonder what manner of man would sell himself into economic bondage for some kind of an "ism." Armies will not stop its spread for it is an idea and jumps ahead of armies, across borders, across mountains, and takes seed only in ground made fertile by poverty and despair or under compulsion.

In the old days it was possible to keep the mass population practically helpless because they were uninformed and uneducated. The radio changed all that. Twenty years ago the introduction of a new idea in the Middle or Far East was extremely difficult because 95% of the population of these countries could not read. Transportation was difficult, and travel by the mass and education through contact with others was an unheard of luxury. Today every village has its radio and in the evening the loud speaker is telling the villagers the news of the world. That voice coming out of the air is a forceful factor for good or for evil. Unfortunately the powers of persuasion are on the side of the forces which say "follow me and the world is yours—you have been exploited by the capitalistic system, now join us in taking over the world for the common man."

Stopping Communism

We cannot and will not stop the expansion of this creed of communism by conversation, debate or government edict. We have just witnessed the death of Czechoslovakia as an independent democracy and its new birth as a part of the Russian orbit. Nine years after Hitler marched in with his goose-stepping hordes and took over this highly industrialized area—we find the secret police of the Russians duplicating the trick. But, in the meantime, the world has practically wrecked itself financially in a war to eradicate the poison of Nazism. The stage has revolved and we are again witnessing the first act of the same play only now the characters have changed from the crooked cross to the hammer and sickle. Let us look at the home performance of these new actors. Thirty years ago the communist party took over Russia and at the same time repudiated all debts both external and internal. They started in other words with a physical plan that was completely free of debt. They had 150,000,000 workers without rights, without vote, offering no opposition. Thirty years later they again repudiate their debts by currency manipulations only this time they are internal ones—taking away from their own people the fruits of thirty years of effort, admitting thereby to the world that their thirty years of administration—even with a debt free economy—has been a total failure. They had no elections to face—no second party to plague them—everything their own way—you agreed or were shot—and the result—utter dismal failure as an economic experiment. No, ladies and gentlemen, I do not believe that this is the ideology that our brave new world needs—and yet the proponents of those theories are reaching out further and further across their borders taking on new areas for exploitation. We tried appeasement once and failure will follow a second attempt. We must fight with every ounce of our financial, spiritual and economic strength. Fortunately, in the meantime, Russia by her actions indicates her lack of faith in her own progress and in her own strength. The recent "grab" of Czechoslovakia will frighten and sober many countries who have been wondering whether the propaganda from Russia was true. As the Russians demonstrate the lack of constructive policy in the countries covered by their expansion, we must be ready to prove the other side of the medal. If this can be done there is still time to avoid World War III.

We have many inconsistencies in our democratic way of life—prejudices relating to race color and creed, and a way of mishandling our economy so that we face a bust or boom area in our economic and social life. But we have proved many things and we must get the story of that proof and of our success placed boldly and proudly before the faces of all men everywhere. We have the strength, both economic and physical to lend a helping hand anywhere that man reaches for help and we cannot and must not waiver at this crucial point.

We have in this great country of ours a deep rooted belief that the dignity of man and his individual freedom are important. We offer people an opportunity of life which the pied pipers of the "isms" can promise but never fulfill. It behooves every man, whether he is interested in foreign trade or not, to realize the affect on his daily life if the "other" side wins. Rumania, Bulgaria, Hungaria, Yugoslavia and Czechoslovakia have disappeared behind the iron curtain. Finland stands trembling on the brink. The battle is now joined in Greece and it will spread to other countries. Turkey maintaining an army of one million men is draining her economy so that the standard of living will fall to the point of uncovering fertile ground for the seeds of a "new" doctrine. Syria and Palestine seething with conflicting elements will prove rather easy prey for an organized ruthless minority. The Moslem world is somewhat insulated by religious beliefs against communism—but even this will not stand against the hordes of underfed millions living in abject poverty in India and Egypt, if they are led to believe that a new idea will relieve their bondage. If we have no better philosophy of life to offer—if we as a free people can find no solution to the problems of the world today—we will be faced with a world half free and half slave. Democracy cannot survive in that atmosphere and for self-preservation we would be forced to a dictatorship form of government.

Trade and Politics

What has all this political discussion to do with foreign trade? Trade is something which stems from the political and economical setup of the world and if that setup changes the forms and functions of foreign trade must change with it. There can be no "free trade" with Russia, as it will be government agencies following expediency on one side against a free people trading for mtual advantage on the other. If goods and services are to move into various areas under government edict, and without the blessing of economic urgency, then the function of international trade will have changed and so will its form.

Let us go back to the form and function of foreign trade as we here in the United States see it today. We are prosperous because of a high productivity per worker. We are prosperous because we produce as an individual, and as a nation, more than we consume. These savings. this accumulation cannot be fully used to trade with other areas and other nations because their productivity per capita is too low and, consequently, their capacity for an equal exchange falls below requirements for a straight business deal. We must make up this deficiency with loans. We must loan, not dollars but dollar credit so that they can purchase here in the United States, machinery, tools and 'know-how" for the rehabilitation of their own internal economy. We must help them to greater productivity in agriculture, in mining, in fact help them to explore to the fullest extent whatever bounties of nature there are within their boundaries. These credits do not have to be gifts—the old world financed us when we were starting our present development and secured by and large a good return on their investment.

We are the leaders of the world now and have a great responsibility to live up to all the precepts of that high position. "Should we be afraid commercially of a new highly industrialized world?" Statistics prove quite the contrary, as the two most highly industrialized areas outside of the United States, England and Canada, are our best customers. The least industrialized, China, is at the bottom of the list of our customers if loans are eliminated. But all countries must undertake the hard work and financial planning of putting their own house in order. We cannot finance a world-wide WPA, based on the theory of "Sit down and we will bring it to you." But we can partially finance a hard working group of human beings if the plan is sound and political greed and corroding nationalism are left out of the equation.

Present Foreign Trade Not Normal

What is a normal situation in world trade? Certainly not the "roaring twenties" after the World War I, or the war years, 1940 to 1945, or the three years since World War II has ended. Actually, we have not had a normal year since the United States became a debtor nation during the first World War. Perhaps we need some new sights, new yardsticks, some new ideas to substitute for the old formulas that worked when some of the factors were much different than they are today. The simple days of Cal Coolidge and "They hired the money, didn't they?" are gone for many generations—if they ever really existed.

There is at least one penalty for making a speech. First when your knees are wobbling and you wonder why you let yourself in for such an ordeal. Then you get started, get intrigued with the sound of your own voice and, as everyone is polite and can't talk back, the speaker has an agreeable time.

But no one has the right to orate all over a subject as I have done without somewhere accepting the responsibility of making some suggestions—of answering the question, "All right, what would you do about it besides talk?"

Some Recommendations

I would like to offer some concrete suggestions which I think would help the situation. Some work is being done on these various points but it must be pushed forward aggressively and not allowed to peter out. I hold no preference with the order in which these points are listed, and do not indicate my estimate of their real importance by their position on the list. Here they are:

(1) Abolish all cartels and the split-up of the world into "areas of influence." Competition is a necessary adjunct to any mutually advantageous trade pattern and the world should be able to buy where it can secure the best bargains.

(2) Establish a free gold market—so we know the "Market Place" value of gold and the relative values of foreign monies in terms of that free gold price.

(3) Remove insofar as possible all restrictions against the flow of goods. Reducing tariffs is an idle gesture if it is followed by import quotas, exchange regulations and other restrictive measures.

(4) Formulate a policy on government and private loans which is predicated on a self-liquidating basis. The end result should not be a palliative to ease a current situation but a fundamental economic remedy that is aimed at removing the causes necessitating the loan.

(5) Secure an agreement among the free people of the world on some fundamental policies of export and import practices—so the rules of the game will not be changed while traders are running from first to second base. In these include a provision against "dumping"—or uneconomic practices.

(6) Inculcate the knowledge throughout our social structure that we must export in order to import—and that imports are good for our economy.

(7) Repeat and believe the fact that an interchange of goods and services between the nations of the world spells prosperity and hope for all peoples. That a stag-

nation of trade is a forerunner to social unrest, political upheaval and war.

(8) Refuse to accept in our country the need for tariff—high protection for a few at the expense of the entire economic structure. This is a "touchy" subject but the day will come when voters will not accept high prices if they result from tariff protection when the outside world could ship us their exportable surpluses and take in return some of our surplus goods.

If we could bring these things into being and then put into the highways of unhampered trade the "know-how" of the United States—our productive genius, our credit facilities and give of these things freely to our less fortunate neighbors across the sea, we could enter a period of prosperity and good will never before thought possible. We could keep our own industries turning over at a high rate and bring new hope, new courage, new faith to a fast despairing world. This is what foreign trade can mean to us.

I feel there is one general point that is difficult to mention because one can be accused of being unrealistic and paying too much attention to an idealistic aspect of life. It does seem, however, that by this time man should realize that he does not live by bread alone and that business and profits are not the beginning and the end of man's purpose in life. I feel that in exporting we must export—our goods, yes—but also our way of life, our hopes and our belief in the future. It is not material alone that will help the world, we need also to keep alive the spiritual and moral forces without which material things alone will fail to bring a new day and a new hope to the world.

I urge everyone here tonight to give deep thought and consideration to this problem of foreign trade, not only as it affects your individual life but its long range effects on the future of the peaceful world we want to leave to our children. Nothing is sure in this world of ours. We will make mistakes and we will have to pay for those mistakes. But one thing is sure and that is, that our greatest mistake would be to sit calmly in our well fed current prosperity and do nothing about the chaotic world outside our borders.

Foreign trade means a great deal to Toledo. At Willys-Overland alone our exports since VJ-Day have amounted to $66 million. Translated into manpower this means that one out of four people employed at Willys-Overland are busily engaged in fulfilling the demands of the export markets. Let us not be confused by the current situation, where shortages in this country make it seem unnecessary to hold our production at high levels with export volume. The current situation is not normal and the day will come when we will be very glad that the people in Brazil, South Africa and Europe need and want our Jeep products, our glass and the other locally manufactured items.

I would like to see the products of Toledo cross the seas and the international highways in ever greater abundance. I would like to see the time when f.o.b. Toledo is a signature known around the world, a signature that goes with honest merchandise on its mission of exchanging goods for goods and creating a better standard of living and a more secure life for people everywhere in the world. F.o.b. Toledo—a slogan that represents the products of a free nation where the dignity of man, his hopes, his aspirations are the foundation of government and of life.

Earnings or Confidence

(Continued from page 2)

the present time dollar profits are already at an all-time high, that industry is operating at virtual capacity, that inflation has priced many consumers out of many markets, that the cost of labor threatens to rise again, that inventory appreciation has played a large part in 1947 profits, and considering that supply and demand are continually coming closer to balance, it does not seem to be a good probability that reported corporate earnings during 1948 will show an important increase over 1947 and the possibility exists that they may even decline to a significant degree.

Just what will happen to the economy in the coming year seems beyond the scope of conclusive deductive analysis. One has but to refer to the predictions of a recession by some of the most highly reputed economists in the country over the past 18 months to realize that there are simply too many unknowns in the current economic equation to reach a conclusion of real validity. A few of the intangibles are: Has the inflation bubble burst? If so, will it lead us into a deflation spiral? What will be the impact of the inevitably higher costs resulting from increased rail rates and the potential third round of wage raises? What will be the Government's tax and fiscal policy? Is there sufficient credit to meet the demands for capital? What will be the extent and scope of the Marshall Plan? What will world food conditions be during the coming year? How close is supply to over-balancing demand at present prices? Time and space do not permit discussion of these and the many other problems which confront us.

However, all these unknowns tie directly or indirectly into the question of a business recession and what effect it would have on business profits. It seems safe to say that any economist or analyst who claims to know the answers to all these problems is merely fooling himself and his readers. As has been pointed out previously, an important rise in profits for the economy as a whole appears improbable. Whether profits will remain steady or fall resolves merely into a reasoned guess.

The Historical Background

What then is the outlook for price earnings ratios in the coming year? As has been noted previously the p/e ratio on the Dow Jones industrial stock average has been close to historical low points, ranging between 9.8 and 8.5 for the year 1947. To find an analogous low valuation on earnings one must return to 1923 when the yearly average ratio was 8.3. The question then becomes why is the investor so distrustful of current earnings, and has the bear market been as illogical as many analysts can be heard to claim. In the first place, how real is current earning power? By general agreement the present allowable depletion and depreciation charges are totally inadequate and hence tend to overstate real profits by the amount of their inadequacy. Secondly, Department of Commerce figures for 1946 show that 22% or over one fifth of earnings before taxes resulted from inventory profits. Latest available statistics for 1947 indicate that this percentage again may run as high as 19%. Furthermore, in addition to exaggerating the earnings picture, profits of this nature tend to distort true profit margins in exactly the same manner they distort profits, thereby lulling the unwary investor into the feeling that his company has control of its costs, when actually they may be suffering a severe squeeze in their operating margins.

At the present time, figures from four hundred corporations which have been adjusted for increase in inventory values indicate that on the overall basis profit margins are comparable to prewar. However, this again is deceiving because the average is being substantially bolstered by very high margins in a few industries such as textiles and papers, while a good many groups such as steels, automobiles, farm equipments, chemicals, and electrical equipments are reporting margins in some cases substantially lower than prewar. In addition, these margins can be further imperilled by a continued rise in the price of raw materials and labor. This is particularly true in industries which are not in a position to pass on all increases in costs to the consumer. Preliminary figures prepared by the National Industrial Conference Board on the cost of labor per-unit-produced for all manufactured industries are as follows. Using 1939 as a base period equal to 100:

2nd qtr. 1946	= 159.2
3rd qtr. 1946	= 161.7
4th qtr. 1946	= 167.8
1st qtr. 1947	= 171.8
2nd qtr. 1947	= 174.5
3rd qtr. 1947	= 184.8

In other words, at the third quarter rate the labor cost to produce one unit of a product was 84.8% higher than in 1939. This means that although the actual physical amount of goods turned out by labor may be improving and hence give rise to the talk about the improving productivity of labor, the actual dollar cost to get labor to turn out a given volume of goods is still rising. On top of this situation exists the strong threat of the third round of wage increases.

The rigidity and rise in the cost of labor, and the uncertainty in the profit margin picture raises the question of break even points and of how much of a drop in volume would drastically reduce or even eliminate profits entirely. There is no way of giving an accurate answer to this question. However, if the comments of leading business executives can be used as a criterion, it is a source of much concern. Some idea of the rigidity of costs and of the leverage in the profits picture can be gained from the following figures quoted from Standards and Poor's. During the period from the second quarter to the fourth quarter of 1937, industrial corporate profits fell from 127.8 to 31.4 or 75% while industrial production declined only 19% and while wholesale commodity prices fell only 4½%.

Certainly the break-even point problem is not better today than it was in 1937, and until proof is offered to the contrary it must be suspected of being far worse. The inescapeable conclusion would appear to be that these high break-even points, in combination with inadequate depreciation allowances, inventory profits, and reduced profit margins in many segments of industry leave earnings in a definitely vulnerable position to an economic setback of more than fairly minor proportions.

The point to remember at this juncture, however, is that none of the above-mentioned conditions makes a decline in profits necessarily imminent, as so many have argued. These factors have all been in force a year or more, yet because demand has exceeded supply, earnings, far from falling, have risen in the past 12 months. These factors do, however, indicate that earnings *could disappear overnight* if total demand were suddenly to fall by any significant degree.

With this fact in mind, the very low level of investor confidence in current earnings, as expressed by present price earnings ratios, appears far more logical. The constructive aspect of present ratios is that investors appear to have discounted the worst, and judging from history, ratios are not likely to decline further. The far better possibilities are that they will either remain relatively unchanged or will gradually improve as present uncertainties are resolved and investor confidence returns to more normal levels. It would appear, therefore, that an important rise for industrial securities during 1948 almost surely will be stimulated, not by an increase in present very high earnings, but by a rise in present very low price-earnings ratios. By the same token, an important decline for industrial securities is not likely to be caused by a fall in the valuations placed on earnings, but rather by a fall in the earnings themselves.

Much of the selectivity in the market during 1947 can be accounted for on the basis of this thesis. A break-down of 38 groups showed that only seven were able to improve their positions significantly in relation to the Dow-Jones industrial average. The remaining 31 groups either held their own or suffered substantial declines. Groups which gave the worst performance were those which suffered adverse or declining earnings pictures, such as air transport, apparels, foods proprietary drugs and the motion pictures. Groups which moved right with the averages were those whose earnings were good but whose long-term outlook for those earnings did not improve sufficiently to warrant higher price earnings ratios than had prevailed earlier in the year. Representative of this category were the coppers, tobaccos, automobiles, papers and sugars. Groups which gained on the averages with the exception of the oils which appear to be in a category by themselves, were for the most part those where a longer period of capacity demand became increasingly probable and thus warranted greater investor confidence. In this group were the rayons, steels, farm equipments, fertilizers, coals, and heavy electrical equipments. Although earnings in these industries may improve modestly in the coming year as a result of better material supplies, or new and more efficient equipment, it is significant to note that their periods of most noticeable market strength coincided to a great degree with investor recognition of their long-term demand prospects. This was particularly evident in the case of the Marshall Plan stocks. Proposal of this plan did not imply higher earnings for these industries, which were already operating at practical capacity. It did, however, imply a longer period for such earnings which in turn warranted increased investor confidence and higher p/e ratios for these groups.

Conclusion

In conclusion the market for the past 18 months has been caught in an impasse between a very high level of earnings and a very low level of investor psychology. Bearing in mind the original equation of—earnings times price earnings ratio=market price, the only two logical possibilities at the present time seem to be either a fall in earnings or a rise in p/e ratios. Earnings, we have seen, are definitely vulnerable to a relatively small drop in demand and could fall quite easily. Confidence, on the other hand, is faced with an almost staggering array of uncertainties—economic, political, and international—and there seems little reason to believe that these earnings, which for the past year have been valued by investors as low as two to three times, will shortly be valued at four to six times.

The only conclusion possible then is that, for the present, there is a much better chance of a fall in earnings than of a rise in confidence, and until some of the many uncertainties in the present picture are resolved, a far greater danger exists of being caught in a falling market than that of missing a worth while bull market rise.

Morgan Stanley Offers Pac. Tel. & Tel. Issue

Morgan Stanley & Co. headed a nationwide group of underwriters that offered publicly March 17 $75,000,000 Pacific Telephone and Telegraph Co. 30-Year 3¼% debentures due March 1, 1978 at 102¾% and accrued interest. The group was awarded the debentures at competitive sale on its bid of 102.07999.

Net proceeds will be used to reimburse the company's treasury, in accordance with orders of the regulatory authorities of California, Oregon and Washington, for expenditures made for extensions, additions and improvements to its telephone plant. Having so reimbursed its treasury, the company will repay its then outstanding advances from American Telephone and Telegraph Company, its parent, to the extent that such net proceeds are sufficient therefor. These advances are obtained in conformity with an established practice of the company, which it expects to continue, of borrowing from its parent, as need therefor arises, for general corporate purposes, including extensions, additions and improvements to its telephone plant and advances to its wholly-owned subsidiary, Bell Telephone Co. of Nevada.

The company, now engaged in the largest construction program in its history, sold $175,000,000 of debentures and some $32,600,000 par value of common shares in 1946 and 1947 in connection with this program. Last year it spent $195,000,000 for new construction and expects that these expenditures will continue at a high level during the next few years.

As of Dec. 31, 1947, the company and its subsidiary had 3,411,-981 telephones in service and were furnishing local service in 618 exchange areas. The company serves the states of California, Oregon, Washington and the northern part of Idaho while its subsidiary serves Nevada. About 34% of total telephones in service are located in Los Angeles and vicinity, and about 25% in San Francisco and vicinity.

The new debentures will be redeemable at 105.75% prior to March 1, 1953 and at prices decreasing to 100% on and after March 1, 1973.

Following the sale of new debentures, the outstanding capitalization of the company will comprise $325,000,000 in funded debt; 820,000 shares of preferred stock, 6% cumulative, par value $100 per share; and 2,787,577 shares of common stock, par value $100 per share. In addition there will remain outstanding approximately $25,000,000 of advances, evidenced by 2¾% notes, from American Telephone and Telegraph Company.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Policy of letting profits run and cutting losses short still holds up. Trimming of list leaves airplanes as prime holdings.

The pruning process which was recommended here last week has strengthened the list by eliminating the weak sisters. It might be apropos to point out here that in selling stocks—long stocks—it is important that the poor ones be dropped. This is so obvious that readers may wonder why I even mention it.

* * *

The reason is that the obvious is seldom followed. If a man has two stocks, one with paper profits, the other with paper losses, the chances are if he's faced with a decision to sell one he'll pick the one with a profit. The argument is "I have a loss, but if I hold on long enough I'll make a profit, or get out even. So if I have to sell, I'll sell the one with a profit."

* * *

If that argument seems far fetched, remember I'm writing from practical experience. There is some kind of mental block that prevents people from taking losses when losses are sometimes the only way to profits. There is an old Street axiom, "Let your profits ride but cut your losses short," that few people follow.

* * *

When I advised the purchase of a list of stocks I picked those I thought acted better than the market at the time. As days and weeks passed the gradual sifting process began and the choices of yesterday began acting like the discards of tomorrow. The market doesn't wait for everybody to make up his mind. It acts when it sees fit and the individual trader who wants to be around for more than a couple of cycles, has to act quickly. Sitting around with a portfolio of "good" stocks, a lot of which may be in the red, is not my idea of successful trading.

* * *

By this time I think you've gotten the idea.

* * *

Your list is now reduced to ten stocks after last week's elimination of American Chain, American Brake Shoe and Briggs. As of this writing the list includes: Anaconda at 31½-32½; stop 29; Avco, 4-4½; stop 3½; Bethlehem, 30-31; stop 30; Caterpillar Tractor, 54-55; stop 52; Consolidated Vultee, 12-13; stop 12; Douglas, 50-52; stop 50; Dresser Industries, 21-22; stop 21; Lockheed 13-14; stop 15; G. L. Martin, 15-16; stop 12, and United Aircraft, 23-24; stop 23.

* * *

You will note that the above has a large proportion of airplane stocks. When the advice to buy was given it was based entirely on technical performance. The possibility of war wasn't considered. It didn't have to be. The market makes its own decision. I mention this because there is increasing crisis talk. Whether it's justified or not the market will say in its own way.

More next Thursday.

—Walter Whyte

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

American Optical Debs. Placed on Market

Harriman Ripley & Co., Inc. and Estabrook & Co. headed an underwriting group that offered publicly March 16 $10,000,000 American Optical Co. 20-year 3⅛% sinking fund debentures, due March 1, 1968 at 100.35% and accrued interest. The company is a Massachusetts Voluntary Association with headquarters at Southbridge, Mass. Net proceeds will be applied by the company to the payment of bank loans.

The new debentures will be redeemable at prices scaled from 103½% to par. They also will be redeemable, through operation of the sinking fund, beginning on March 1, 1951, at prices ranging from 100.35% to par. The sinking fund is calculated to retire 75% of the debentures prior to maturity.

American Optical Co., the business of which was established in 1833, ranks as one of the world's largest manufacturers and distributors of opthalmic and optical products. It also manufactures and distributes scientific instruments, industrial safety equipment and sun glasses. The principal manufacturing plant of the company and its subsidiaries are located at Southbridge, Mass.; Cheektowaga, New York; Brattleboro, Vt.; and Putnam, Conn. in the United States and at Belleville, Ont., and Nicolet, Que., in Canada.

Sales of the company and its subsidiaries amounted to $57,395,693 in 1947 and net income for that year totaled $3,007,857. The new debentures constitute the only funded debt of the company, although a Canadian subsidiary has outstanding $1,750,000 of serial debentures.

Heath & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

ELGIN, ILL. — Heath & Co., Tower Bldg., have added Melvin Griebel to their staff.

What Banks Face in Mortgage Lending

(Continued from page 17)

smaller than heretofore has been considered normal for this type of asset—actually much less than the average banker realizes.

The general adoption of monthly payments on mortgage loans has been a definitely constructive development. However, its advantages are partially offset by the great extension of the term of payment and the larger relative amount of the mortgage to the value of the property. Interest takes so much of the monthly amortization in the earlier years of a long-term loan that the principal reduction only approximates what used to be considered a minimum depreciation, without any allowance for neighborhood changes or other forms of excessive depreciation or obsolescence. As a matter of fact, on longer-term loans the principal payments in the first five years will amount to only a little over 2% of the principal each year. This is not a very substantial protection against any sharp depreciation in the market values of the properties securing the loans.

In the last year, any dangers in this have been multiplied by the rapid growth of the mortgage account at a time when costs and prices have been extremely high. As usual, the peak of mortgage lending is at a time of extreme prosperity and we may find that the most substantial increase in mortgage totals in bank assets took place at the wrong time. High prices lead to higher appraisals, more risk, and larger loans which rapidly use up lending power. Time may show that the appraisals and loans made have not taken into account the possibility of any reversal in the levels of national income, business activity, building costs, and total deposits.

If we consider the number of new dwelling units started over the last several years, we can perhaps see what could happen. In 1946 there were 671,000; in 1947, 850,000; and in 1948 it is estimated that 950,000 new dwelling units will be started. This compares with 937,000 in the year 1925, our prewar period of highest home building activity.

Substantial Market Revisions Expected

I suggest that inevitably at this rate supply will begin to have some effect on demand. When it does, and if that should be coupled with any kind of a recession—no matter how moderate—the effect will immediately be felt in the area of the overfinanced properties on which loans recently have been made. The prices of properties reflecting present-day costs undoubtedly will be subject to some substantial market revisions.

We must remember also that the building business has been the area in which inflation has shown itself to the greatest extent. No one denies the existence of a housing shortage, which has resulted in continued pressures to stimulate new building. But the pressures have had some strange results. Principally they have produced ever more generous offers of easy credit to those who need homes or other living accommodations. The philosophy of lower and lower interest rates, less and less down-payment, and longer and longer terms of payment has been the easy and popular answer. This has had the effect of multiplying the number of possible buyers in relation to the limited supply of new homes. It has created a sellers' market and a buyers' competition which have been the principal factors in marking up both costs and selling prices In effect any one who could build could also write his own ticket on the selling price and readily find purchasers eager to buy on easy credit terms.

But, of course, the supply of purchasing power and credit never has been the real problem in obtaining an adequate amount of new building. The public has never before possessed so much liquid capital, and credit has been the only component of building freely available at low cost. The source of the trouble has been elsewhere. It has been in high labor costs, low work output, work restrictions, and worker shortages; in high material costs, material shortages, and other obstacles. It certainly has not been in the interest rate on money borrowed, or in a shortage of credit. If it had been just a matter of credit, there would have been no housing shortage.

Easy Terms for Loans

There have been extremely easy terms for loans. In many cases veterans can borrow the total purchase price. Under FHA others can borrow 90% of the appraised value on new construction. Loans are guaranteed or insured by the government to protect lenders who otherwise could not take such unwarranted risks with the funds entrusted to their care by depositors. Interest rates are 4½ or 4%, and sometimes less. Monthly payments on principal have been extended over longer terms of years, up to two and three decades. All this easy credit has been the major factor in creating a market which has produced higher and higher prices for homes and made it possible for more buyers to compete for the new homes available. There has been nothing in this process to help create real values in low-cost housing. There is only high-cost housing to be had at any price.

Liberal government guarantees in the field of house loans, under conditions of building shortages unquestionably have been inflationary. Government credit programs are made effective by using the banks as the principal source of the supply of credit. The public is urged to use the credit freely and the banks are urged to supply it. The large amount of the loan under a government guarantee, coupled with the much higher prices of homes, has resulted in individual loans becoming about twice as large as they used to be and using up lendable funds that much more rapidly. As a result of the use of this credit by private borrowers in large amounts, bank mortgage loan totals could not be otherwise than substantially increased.

As long as builders and buyers, who are the producers and consumers of building, can obtain unlimited supplies of liberal credit and use the proceeds to compete for a limited supply of labor, materials, and homes, the pressures to maintain present high prices and create still higher prices will continue.

Certainly government-sponsored programs designed to create large amounts of easy credit for housing and other purposes at a time when the government itself is publicly pledged to attack inflation should be the first subjects of modification, if there is any real government intention to combat inflation.

In the years of our greatest supply of purchasing power, many billions of dollars of mortgages have been guaranteed. Originally this was an instrument created in the depths of depression. But now at the time of our greatest prosperity it is being used to the maximum. Here is a classic example of the process devised to pull us out of a condition of little money and no credit, financial fear, panic prices, and no building being continued and used to the greatest degree under exactly the opposite conditions.

It should be apparent that when these loans are made under circumstances of great optimism they have in them seeds of trouble under less favorable conditions. The fact that these loans have been guaranteed has encouraged too many lenders to make loans without giving any real consideration to the final position under adverse conditions of either the borrower or the guarantor. Certainly the builder and the loan broker will be little concerned about this. It is possible that many of these loans will turn out to have been a disservice to the borrowers. But that is not the only problem. It is conceivable that guaranteed loans can become claims against the government in large numbers. If that should happen, those who made the loans will probably be charged with having acted solely for their immediate profit advantage and, while doing that, created a mass of deferred claims under the gurantee. The circumstances under which this was encouraged by the government will be forgotten, and the entire atmosphere can easily become one of resistance to payment. There can be complications and delays in collecting claims—a complete reversal of the ease with which the guarantee was originally obtained. Carelessness in making these guaranteed loans can be an easy way to buy bad will and trouble, and an FHA loan can be an extremely troublesome, delayed, and roundabout way to acquire government bonds.

The Congress will not receive any large dollar amounts of these claims with pleasure. The borrowers with trouble loans will be unhappy. The Congress will not blame the borrowers for obligating themselves on unrepayable debts and the borrowers will not blame the Congress which invited them to take on large debts by calling them easy credit. Both will unjustly blame the maker or holder of the loan. The lender will be charged with carelessness and may have his assets frozen under a moratorium, if nothing worse happens to him. In any event the lender is sure to be the one penalized. I think these are dangers we must recognize and use every effort to avoid.

Inflated Mortgage Debts

In addition, we must always bear in mind that one of the inevitable results of the large volume of construction, the present inflationary prices, and the much larger individual mortgages, is an inflated debt which promises only grief at some later date for the home investor and the economy as a whole. The financial devices of easy credit have served only to make the present inflationary problem worse and create additional problems for any day of reckoning.

I mention these things because the basic protection of the mortgage account lies in a realistic view of the inflationary cost and price conditions, the low down-payments made by borrowers, and the lending practices encouraged by government guarantees. These not only affect the mortgage when it is made but also its after life.

Protection of Mortgage Investments

The form of action which protects the investment divides itself naturally into two parts—what is done in the way of appraisal, selection, and terms when the mortgage is made and becomes a bank asset, and what is done after that in administering the mortgage investment account. I will emphasize the latter.

The first element of it is to determine a reasonable and appropriate maximum total of mortgage loans the bank should carry in its assets. This is an important investment policy decision which is based on the nature of the deposits; the amount, quality, and distribution of other assets; and the bank's capital. It is a measure

which protects the bank's fundamental soundness and liquidity under adverse conditions.

With this ceiling, it can be determined whether there will be a reserve of mortgage credit available for the future needs of the local bank customers. This reserve can exist from the difference between the present mortgage loan total and the maximum, and also from the liquidated principal of outstanding mortgages. The objective is to be sure it is there. And, do not forget that the longer-term loan and the low monthly payments will reduce the funds available for reinvestment from the payment of amortized principal. If a bank has been buying mortgages to fill its portfolio, the setting of a ceiling total will indicate just how far this practice should be continued. In too many cases local bank customers are in danger of being denied credit when it will be more advantageous to use it, because of over-purchases of loans made elsewhere.

The same principle should be applied to the various components of the mortgage account. Usually these will be conventional loans, FHA loans, and G. I. mortgages. Totals established for each of these in turn will act as a balancing element within the mortgage portfolio. It will avoid undue concentrations, particularly those which may result in the exclusion of the conventional borrower who, because of the preferences given under the veterans housing program, so far has been almost frozen out of the home buying field.

The problem of whether the property taxes are kept up to date is a relatively easy one, usually met in one of two ways. The tax payments are included in the mortgage payments, or an annual tax search on the mortgage properties discloses any unpaid taxes. Action necessary to bring the tax payments up to date then can be easily taken.

Every banker watches carefully the due and uncollected interest on his mortgages. He is sure to do this because the interest is bank income, out of which the expenses and dividends are paid. The errors in the past usually have been connected with special effort to collect interest and little corresponding effort to collect principal. If there was any difficulty at all with collections, the money received usually was applied first to the interest and second to the principal. Of course, this is a process which should be completely reversed. If there is any difficulty in collection the payment should be applied first to the principal and second to the interest. There should be no continuing accrual of uncollected interest taken into earnings. This maintains and protects the quality of the asset, the bank's depositors, and the bank's capital.

The present generally used monthly amortized mortgages provide an easy method for the control and collection of principal payments. It should be the same process as that used in the control and collection of interest. Most banks accrue the interest due and collect against the accrual, and measure the extent of their interest delinquency against the accrual. The size of this difference and its growth defines the collection problem. It is just as necessary to have an accrual of the principal payments due and measuring collections against these accruals. This is a check on the liquidity of the portfolio and whether the contractual liquidity is being maintained. Everything related to present conditions and the terms of today's loans suggests that the first concern of the banker should be whether he is promptly receiving the principal payments called for by the mortgage contract, and taking prompt action on principal payments due and unpaid. The borrower who can not meet his payments now may find it even more difficult later. Now is the time to take prompt action to eliminate any undesirable mortgage assets.

There have been few problems in the mortgage account over the last 14 years but, unless history fails to repeat itself, probably there will again come a time of collection difficulties, mortgage foreclosures, and sales of other real estate. The logical approach to this possibility is a reserve for possible mortgage losses created out of the income received under the most favorable conditions.

What can be done to protect the quality of the mortgage account other than collecting promptly the principal payments due? We know that in the early years of a long-term mortgage loan the monthly payments provide little reduction of the mortgage principal. We know also that these mortgages have been made in a peak market. We have to be concerned about property abuses, excessive depreciation, and neighborhood changes and obsolescences which may destroy values much more rapidly than the principal of the mortgage is being reduced. The practical answer is periodic property inspections.

Unexpected Problems

But, even assuming that all of the mortgages were carefully selected and properly made and every usual protection has been provided after they became a bank asset, we still have the unexpected problems, many of which result from the changing circumstances of the individual borrower. Properties may become involved in law suits, estates or government tax claims, among other things. The borrower may have family trouble or business trouble which makes it difficult for him to meet the agreed-upon payments. Any combination of circumstances can create a problem loan. What method has been established to identify a problem loan and, when it has been identified, what is done about it?

I recommend the segregation of all problem loans from the normal mortgage investments of the bank. To give a practical illustration of this, and also some of my previous comments, in our bank we maintain a complete segregation of all of our mortgages according to their classification, which is carried all the way up to the general ledger accounts. The general ledger and supplementary book records divide the mortgages into an investment mortgage account (these are conventional loans), FHA mortgages, veterans' mortgages, foreclosures, and a liquidation account. Every mortgage which becomes a problem is transferred into this liquidation account. Any time we come to the conclusion, for any reason whatever, that if we had the money today instead of the loan we would not make the loan, it is transferred to the liquidation account and put into the hands of a liquidator for action, either to eliminate it or recondition it to standard. The test we apply is a very simple one, but effective. If we would not make the loan today, we take whatever steps are possible to get the money in place of the loan, and we go to work on it quickly.

It has not been customary for many banks to be concerned about actual costs and the actual net return from their mortgage investments but the existing low rates of interest have stimulated more effort along this line. As I stated earlier, it is easy to assume a more favorable net rate than actually exists. From a standpoint of investment policy the increased income now available on prime securities tends to make mortgages, at present interest rates, look less attractive. In many cases the differential is so small that considering the risks involved and the loss of liquidity, the bank may be better off to buy prime securities and make fewer but better loans to its conventional borrowers. This is a possibility which is well worth some consideration.

Time for Decline in Mortgage Lending

Due to the larger loans and the rapid increase in number of mortgages in the banks over the last two years, and particularly in the last year, the banks are gradually approaching a point where they cannot lend so freely. Their deposits are not growing as rapidly and much lending power has been absorbed. This will be apparent to the banks which follow the principle of establishing an appropriate total of mortgage investments in relation to their deposits and capital. No banker should let himself drift into a condition where his local customer home buyer, who can make a reasonable down payment and borrow on conventional terms, cannot obtain the credit which should be freely available. Every banker should bear in mind the need to maintain a reserve of available mortgage credit for the local mortgage borrowers who are the backbone of his business.

In the administration of the mortgage loan account we must follow the same principles which are inherent in every other borrowing relationship. The first obligation is to protect the depositors and stockholders but, in addition to that we have an obligation to protect the borrower against assuming an unrepayable debt and the guarantor against unreasonable claims. Under today's conditions this means looking beyond the mere status of the borrower's income with relation to the mortgage payment. It means taking into consideration the total of all debts and obligations and the fact that the income may be above normal. It is the effect of the total debts against his income and what may happen to that income under less favorable conditions which will determine whether he can carry the mortgage payments throughout the term of the loan.

Test to Come

We have had 14 years of rising real estate market. The test of good mortgage lending will be in the situation of the borrowers under conditions less favorable than exist today or have existed in the immediate past years. If there is a change and large numbers of borrowers begin to get into trouble, then we have failed in a duty to them as well as to the bank and the guarantor. As the largest mortgage lenders, the bankers of the United States are the main instruments for discouraging unsound and unwise assumption of debt by private borrowers.

A generally prosperous economy requires a large volume of building construction and the banks want to make their share of the mortgage loans necessary to maintain a high volume of building activity. Even without taking into account the existing housing shortage we need about one million new homes a year as a base for reasonably good business conditions. But, the general objective for everyone must be a sound prosperity which can and will extend over a long period of time. This can be accomplished only by giving full consideration to the possible adverse longer-term effect of present credit transactions. There will need to be credit available not only for the builders and home buyers, but for the producers and suppliers of home building materials. And this credit will need to be on a sound basis which does not over-extend the borrower; gives full protection to the bank depositor; and does not contribute to price inflation or speculation.

This, I believe, is the process which will serve the fundamental needs of the greatest number and also tend to maintain a permanently sound and prosperous economy.

Collating the Industry's Problems

(Continued from page 3)

ness Conduct Committees of the NASD nor attempt to demonstrate now, how like an administrative body it is constituted. Suffice it to say that its trial activities are so much like those of the SEC, embracing—despite the Administrative Procedure Act—the functions of investigator, prosecutor, judge and jury, in the one group, that we deem the whole setup contrary to our best American traditions.

Mr. Carret's basic argument that there is need for a united front in the securities industry is elementary and sound. His choice of a representative is unfortunate and deplorable.

Had he suggested the organization of which he is President, the New York Security Dealers Association, as a nucleus, we would be inclined to go along with him. However, it was the old adage of not seeing the forest for the trees.

Any organization that is to be truly representative of the securities industry and is to present a united front in its behalf must meet certain tests. Among these are the following: (a) It must be a voluntary organization, one that is not imposed by the government and is not acting as a compulsory auxiliary arm of any branch of the government. (b) It must have no interest adverse to those of the securities industry. (c) It must be free from all monopolistic practices and must not be the creature of special privileges. (d) Its system of discipline must be in the American tradition divorcing the judicial and prosecuting functions and giving assurance of fair and impartial trials with proper safeguards concerning the presentation of evidence.

The NASD meets none of these tests.

We appreciate NASD reactions. After all, the Securities Acts were passed by the Congress to meet a so-called emergency. The emergency seems to have passed. The conditions in the securities industry, so far as practices are concerned, appear to be well in hand and, therefore, the reasons for governmental regulation and control appear to have vanished.

In the meantime, the NASD finds itself in an excellent financial position with substantial sums in its treasury, the members having been more than adequately assessed. New worlds must be found to conquer and no doubt Mr. Carret's suggestion will be lovingly embraced.

Our duty is clear. We must sound the warning. Don't choose as a representative of the securities industry to solve its problems an organization which has thrived by creating problems for that selfsame industry.

As we see it, one of the first duties of a truly representative body will be to gain relief from the encroachments which have been made upon the activities of the securities industry by the SEC and the NASD. Need more be said!

Observations

(Continued from page 5)

status of our debtors is continuing to deteriorate further, despite our past loans. This was confirmed in Paris this week by French Foreign Minister Georges Bidault, who laid a report before the 16 convening states showing in detail the worsening of their status since their organizational meetings last summer and fall. This continuing month-by-month deterioration should demolish the habitual blaming of Europe's plight on Hitler and the last war, by some quarters.

Let not dollar-subsidization delay our getting a correct report on the actual state of Europe's food supplies, concerning which there has been complete confusion in the reporting from Secretary Marshall down. And let there be a more scientific round-up of the *general* requirements of our Western European friends.

Avoiding Operation Rat-Hole

But in the last analysis, the Marshall Plan will merely be another Operation Rat-Hole if we do not back it up with "what it takes" in military power as well as dollars.

In the words of the current issue of the "American Outlook," (published in London), **"From Korea to the Hindu Kush, from Abadan to Aberdeen, the political and economic systems of what used to be called Western civilization are now huddling together—socialists and capitalists alike—in a last-minute attempt to plug the dyke. A communist would say they look like a brave little Dutch boy supported by a few playmate urchins, paid by their Uncle Samuel to stand and stick their fingers in the leaky walls."**

The Confused Movie Deal

Last week's "Movie Deal" arranged by Eric Johnston as head of the Motion Picture Association of America, and J. Harold Wilson for the Board of Trade in London, is a timely reminder of the detailed questions of policy which will be continually coming up for settlement. While free trade decisions in a free market are to be most highly commended, this compromise arranged with the approval of the governments of both countries, whereby from 17 to 27 million of England's precious loaned or donated dollars are to be remitted for our Hollywood product, is difficult to reconcile with her other austerity measures and defaults. At the least, it represents but one more step of confused planning of a government that is half socialist and half free (or perhaps one-eighth and seven-eighths, respectively).

While admittedly the amount involved is small in dollars, all operations of the Program must be viewed in its *marginal* light; our entire appropriation amounting only to 5% of the recipients' production.

World Bank and ERP

(Continued from page 19)

pedantry," the note ran, "up with which I will not put." I am inclined to think that there are many rules in the book which will have to be re-examined and even defied before we are finished with this matter of world recovery. The imponderables are so great and the cross currents so complex that I very much doubt that the familiar rules can be successfully applied to the extremely fluid world situation that we now face.

Marshall Plan And Foreign Currency

In the first place the whole concept of aid on the scale undertaken since the end of the war and now further contemplated under the European Recovery Program is without precedent in history. Its very size and generosity provoke problems which no economists or politicians have hitherto ever been called upon to face. Take merely the now famous problem of the counterpart — and we shall hear much more about it, I believe, before we are finished. I refer to the use of local currency to be derived from sale of goods received in the form of grants from the United States. In the case of, say, Italy if the proposed or rather talked of dollar grants are forthcoming and are converted into lire at free rates the total sum would compare with the entire oustanding currency issue of the country. If the United States is to dispose of that many lire, some objective group must and should control it. We have already had the experience of the dissipation of similar funds in the case of UNRRA and it is clear that not to exercise control over the local currency proceeds of these grants invites inflationary and other wasteful tendencies whose baneful effects could readily frustrate the objectives of the entire grant. This is only one of the new and perplexing problems which this great adventure in international economics poses.

ERP Administration Problem

This brings me to the whole matter of the administration of the Recovery Plan. You hear much of the type of man needed for this task—some say he must be a businessman, some that the he must be a statesman, that he must have wide knowledge, that he must have a distinguished record of administration behind him, that he must be tactful, that he must be realistic, that he must be imaginaive. He must combine the diligence of a bird dog with the patience of Job. I doubt that there is anyone who combines the qualities which the job so obviously needs. Yet a man will one day be selected and I venture to say that whoever he may be and with all his likely shortcomings, given a substantial record of ability and character he will somehow get along and the task will be well administered, assuming only he does not receive too much advice or have too many bosses. Many things he can do and yet many things are bound to occur over which the administration will have absolutely no control and some of them may well determine the success or failure of the entire venture. What is important is that the public as a whole and the press, the Congress, and the recipients adopt a tolerant and understanding attitude toward this supremely difficult task of administration. With the best men administering there will still be irritating misunderstandings, crudities of operation, and frustrations, all of which are present in the formation of any hastily erected agency, to say nothing of the peculiar difficulties of this one. These difficulties will all be superimposed on the never easy relationship of debtor and creditor, or of donor and donee, and all the while I think we can count on a virulent and vigorous propaganda emanating from the enemies of recovery seeking to exploit mistakes, to misrepresent motives, and generally to poison people's minds against the program.

Unless people in this country, but more particularly people in the countries which are to be the recipients of the aid, understand the difficulties of administration, submerge their own selfish interests, and above all keep in mind that this adventure is a mark of generosity and good will without, as I have said, a precedent in history, it may fail. History is full of examples where the dominant world power has sought to repress its competitors and bend their economies to its own purpose. There are none that I know of on anything like this scale where the chief effort is to rebuild former friend and former enemy alike to a position where they may vigorously compete with the donor. It may be truly said that this is only a matter of self-interest, but the least that can be said of it is that it is one of the examples of enlightened self-interest of which the pages of history thus far have been all too blank.

How the program is to be administered in Washington is important but how it is to be administered in Europe is even more important. We have already seen some encouraging signs of European cooperation in both the economic and political field in Europe but it cannot be too heavily emphasized that it is upon the initiative and cooperation of the Europeans that successful progress of the program primarily depends. I would urge that somewhere at the core of the administration in Europe there should be set up an organization which is something more than a group of national representatives who usually are unable to accomplish more than a series of political compromises. Rather it is essential, in my judgment, that there be an international staff owing allegiance to no national government but to the administration headed by a European director of recognized independence, courage, and ability. The director would not be merely a mouthpiece for the American agency though he would act under its general directions. His strong relatively independent position would enable him to serve as the focal point for the common endeavours of all the participants. His organization, of course, would have to operate in full cooperation with the American agency and his recommendations therefore would ordinarily be acceptable to that agency, but the latter would always have the final say as to the use of American funds.

I see many advantages in the establishment of such a European organization. In brief, I believe it would tend to disarm partisan opposition to the Marshall Plan within the European countries, it would increase the prospects that decisions would be made on a broad-gauge economic basis, and it would help to enlist the full cooperation of European governments and nationals.

Time for Action and Force

This appeals to me as a particularly good suggestion because of my experience with such a staff in the International Bank, but the time has come when further debate or discussion as to method of operation is less important than action. The deadly analogies of the recent news leave us little time for diplomatic maneuvers, little time to debate just how much is exactly needed for the first year's effort or how well articulated the administration can be made. Grim events have occurred and if I may step out of my role as head of an international organization for a moment I would say that the day has arrived for the United States to be clear and prompt rather than over precise.

One can truthfully say that dollars cannot save the world; that many other things must also be enlisted. There is such force behind the suggestion that political and even military steps must likewise be taken, or that this or that other area of the world must also be helped but the fact remains that economic aid to Europe is not only a mighty weapon, it is the first one we have drawn and this is no time to brandish it halfheartedly. There are too many people who are uncertain, tired, and fearful who look again to the west for hope. Bear in mind that most officials and politicians, as well as businessmen in Europe have something more to fear today than loss of prestige, office, or profits. It takes courage and hope to resist. There was a Polish proverb in the days when the Poles were being oppressed by the czars and the kaisers of the time. It was "God is very high and France is far away." Such a philosophy justified many compromises yet it never completely prevailed no more than it will today. Great powers of strength and resistance to oppression remain in the world and they can be mustered again in favor of freedom, only no uncertain note can be blown on the trumpet at the outset.

I have heard it said that our constitutional system does not adequately become our position as a world leader. With all its advertised defects, particularly as they show up in a political year, the system has been tested frequently and severely enough in our history to cause us to hesitate to change it. Under it we have acted with strength and unison in real emergencies. At any rate we can neither change it or allow it to stultify us now. While other proposals are forming and while still more ominous events portend let us not forget that the best clear chance for peace lies in the prompt economic recovery of Europe. It is important, however, that we get on with it. To be sure the United States must stand strong before the world today and it is foolish to suppose in this world that your influence can reach far without strength but the opportunity which the economic recovery of Europe and its closer integration today affords must not be missed. With all our other wise preparations this still remains the first and most promising objective for us to achieve.

"Wolf, Wolf!!"

(Continued from page 2)

though the prospects for success were high and even though this was the only road that could lead to restored health.

If farm prices before the recent decline had been relatively low and farmers had been having trouble making ends meet, the decline would only have accentuated a maladjustment and destroyed an important market for the products of industry. This was part of the trouble during the 1930's when the economy failed to move ahead. But it is known to all that farm commodity prices have been out of line on the high side. As of early February, farm commodity prices in general were 156% above the average for the prewar years 1935-1939 while non-farm wholesale prices were up 82%. This has forced the average consumer to spend a disproportionate share of his income for food and has lessened his buying power for other products and services. It has added to labor unrest and has spearheaded the inflationary whirlwind which threatened an ultimate "bust." A lower level of farm commodity prices could thus correct a serious maladjustment and should strengthen the economy. We are currently going through a period of concern over a farm commodity price adjustment that is necessary in order to put our economy on a sounder basis.

More Benefit Than Loss

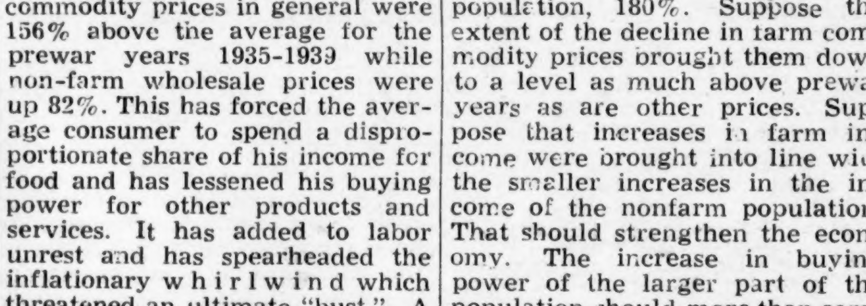
Approximately 27,000,000 of our people live on farms and 116,000,000 are nonfarm dwellers. This means that a decline in food prices would reduce the cost of living for at least four people for each one person whose income would suffer directly. Net income of farmers for 1947 was 256% above the average for the prewar years 1935-1939; for the rest of the population, 180%. Suppose the extent of the decline in farm commodity prices brought them down to a level as much above prewar years as are other prices. Suppose that increases in farm income were brought into line with the smaller increases in the income of the nonfarm population. That should strengthen the economy. The increase in buying power of the larger part of the population should more than compensate for the decrease in buying power of the farm population, up to this point. The office worker, the factory laborer and the farmer could more readily exchange goods and services. Their ability to do this goes a long way toward controlling our prosperity.

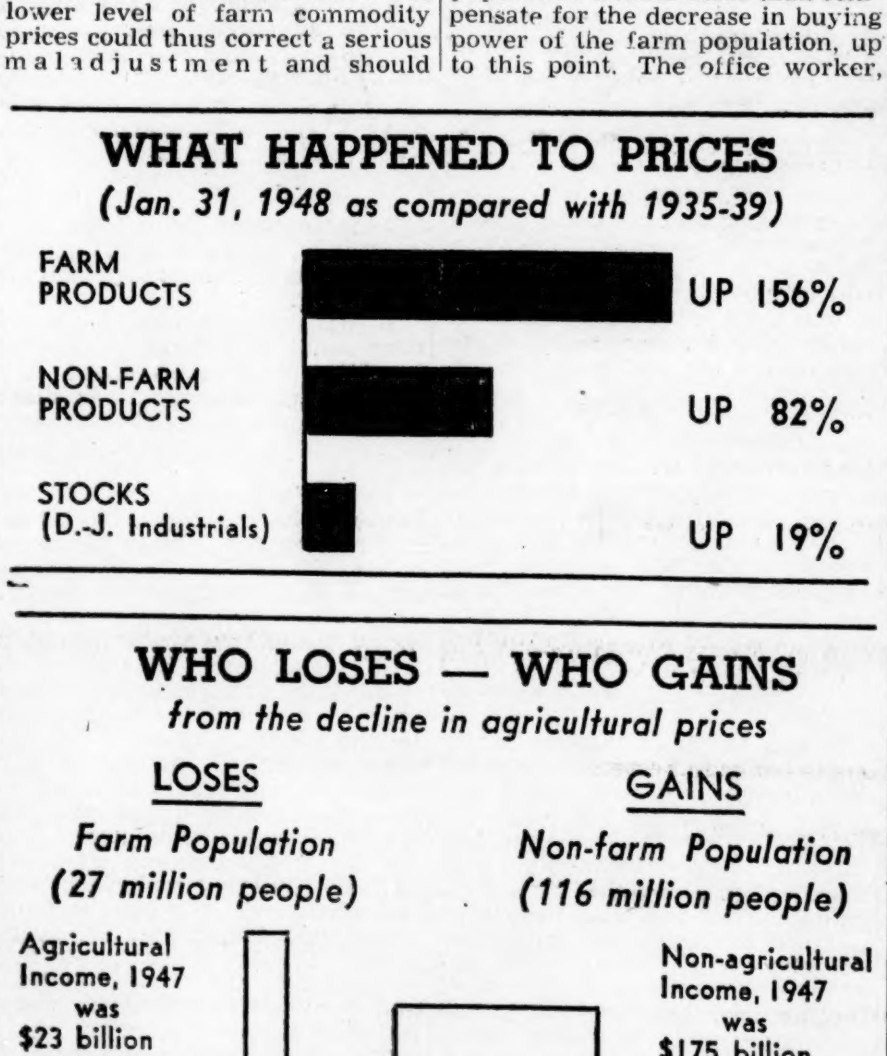
There appears little risk that in the near future, farm commodity prices will decline so much as to become out of line on the downside. The domestic demand for food continues substantially above that of any previous peacetime period. For some time to come Europe will probably need considerably greater quantities of food from us than during prewar years although less than she received during the past year. Every indication is that the government stands prepared to carry out a policy of supporting farm prices at levels which protect the farmer's income. This background justifies confidence in the view that we are not now threatened with a farm commodity price decline which will go beyond the point of correcting a maladjustment.

There is another important aspect of this price adjustment. Industry is now in the midst of an unfortunate third round of wage increases. The past two years' experience leaves little doubt out that this will result in many price increases for manufactured goods. Had farm commodity prices continued to rise or even stabilized at the January peak level, we could have been thrown into another damaging wave of inflation. It could have culminated in the frequently predicted "bust." Instead, we are going through a period of caution on the part of business managers and consumers and, we hope more restraint on the part of labor.

Investment Policy

There is no reasonable doubt of the ability of the nation's financial system to withstand the strain through which it is now going. The central banks have adequate reserves. The commercial banks have additional lending power and are in strong positions. Liquid savings of consumers in the form of cash, bank deposits and government securities continue to increase. Demand for goods in total exceeds supplies at reasonable prices. Possibly the weakest spot in our economy has been the inflated level of farm commodity prices and this may be on its way toward correction. Without minimizing the near-term uncertainties, we believe investors should keep in mind and prepare to take advantage of the favorable possibilities in the longer-term investment outlook.





Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available (dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date):

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Mar. 21	97.5	96.6	92.5	96.4
Equivalent to—					
Steel ingots and castings produced (net tons)	Mar. 21	1,757,400	1,741,200	1,667,300	1,686,900
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Mar. 6	5,352,900	5,387,125	5,332,575	4,823,900
Crude runs to stills—daily average (bbls.)	Mar. 6	5,311,000	5,463,000	5,348,000	4,874,000
Gasoline output (bbls.)	Mar. 6	15,451,000	15,796,000	15,476,000	14,671,000
Kerosine output (bbls.)	Mar. 6	2,821,000	2,780,000	2,468,000	2,259,000
Gas oil and distillate fuel oil output (bbls.)	Mar. 6	7,354,000	7,963,000	7,870,000	5,477,000
Residual fuel oil output (bbls.)	Mar. 6	8,700,000	8,824,000	9,154,000	8,406,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Mar. 6	111,474,000	111,040,000	105,100,000	104,358,000
Kerosine (bbls.) at	Mar. 6	9,843,000	9,594,000	11,119,000	10,788,000
Gas oil and distillate fuel oil (bbls.) at	Mar. 6	32,749,000	33,836,000	38,538,000	35,492,000
Residual fuel oil (bbls.) at	Mar. 6	48,114,000	49,206,000	50,257,000	43,497,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Mar. 6	792,571	791,089	747,394	805,775
Revenue freight rec'd from connections (number of cars)	Mar. 6	722,851	735,952	668,783	707,938
CIVIL ENGINEERING CONSTRUCTION, ENGINEERING NEWS RECORD:					
Total U. S. construction	Mar. 11	$95,996,000	$183,872,000	$133,534,000	$103,332,000
Private construction	Mar. 11	46,660,000	71,728,000	68,319,000	69,294,000
Public construction	Mar. 11	49,336,000	112,144,000	65,215,000	34,038,000
State and municipal	Mar. 11	30,254,000	55,527,000	33,185,000	31,831,000
Federal	Mar. 11	19,082,000	56,617,000	32,030,000	2,207,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Mar. 6	13,025,000	*12,925,000	11,350,000	12,807,000
Pennsylvania anthracite (tons)	Mar. 6	1,176,000	1,238,000	1,170,000	1,053,000
Beehive coke (tons)	Mar. 6	126,400	*132,400	131,200	127,600
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Mar. 6	265	*248	240	25[illegible]
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Mar. 13	5,284,641	5,292,595	5,384,945	4,763,843
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Mar. 11	102	113	95	51
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Mar. 9	3.23940c	3.23940c	*3.19411c	2.86354c
Pig iron (per gross ton)	Mar. 9	$40.37	$40.37	$40.17	$33.1
Scrap steel (per gross ton)	Mar. 9	$39.75	$40.00	$40.50	$38.75
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Mar. 10	21.200c	21.200c	21.200c	21.225
Export refinery at	Mar. 10	21.725c	21.575c	21.425c	22.175c
Straits tin (New York) at	Mar. 10	94.000c	94.000c	94.000c	70.000c
Lead (New York) at	Mar. 10	15.000c	15.000c	15.000c	15.000
Lead (St. Louis) at	Mar. 10	14.800c	14.800c	14.800c	14.800
Zinc (East St. Louis) at	Mar. 10	12.000c	12.000c	12.000c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Mar. 16	100.73	100.74	100.71	104.61
Average corporate	Mar. 16	111.25	111.25	110.70	117.20
Aaa	Mar. 16	116.22	116.41	116.02	122.0
Aa	Mar. 16	114.85	115.04	114.46	120.02
A	Mar. 16	110.70	110.70	109.79	117.00
Baa	Mar. 16	103.64	103.64	103.47	110.34
Railroad Group	Mar. 16	105.69	105.86	105.17	112.75
Public Utilities Group	Mar. 16	112.93	113.12	112.37	118.20
Industrials Group	Mar. 16	115.24	115.24	114.85	120.84
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Mar. 16	2.45	2.45	2.45	2.19
Average corporate	Mar. 16	3.10	3.10	3.13	2.79
Aaa	Mar. 16	2.84	2.83	2.85	2.55
Aa	Mar. 16	2.91	2.90	2.93	2.65
A	Mar. 16	3.13	3.13	3.18	2.80
Baa	Mar. 16	3.53	3.53	3.54	3.15
Railroad Group	Mar. 16	3.41	3.40	3.44	3.02
Public Utilities Group	Mar. 16	3.01	3.00	3.04	2.74
Industrials Group	Mar. 16	2.89	2.89	2.91	2.61
MOODY'S COMMODITY INDEX	Mar. 16	411.7	403.5	409.5	430.1
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	Mar. 13	226.2	228.7	229.9	224.4
Fats and oils	Mar. 13	242.1	244.0	231.5	321.4
Farm products	Mar. 13	251.2	258.0	245.1	256.0
Cotton	Mar. 13	319.7	324.3	300.6	336.1
Grains	Mar. 13	264.6	277.4	256.4	253.1
Livestock	Mar. 13	241.6	247.9	238.3	249.5
Fuels	Mar. 13	220.8	220.8	220.8	159.2
Miscellaneous commodities	Mar. 13	172.8	174.1	173.4	162.6
Textiles	Mar. 13	211.3	212.7	211.7	211.1
Metals	Mar. 13	163.5	163.5	162.2	147.8
Building materials	Mar. 13	232.8	232.8	233.5	203.0
Chemicals and drugs	Mar. 13	157.0	157.0	155.1	154.5
Fertilizer materials	Mar. 13	137.6	137.7	137.7	128.0
Fertilizers	Mar. 13	143.0	143.0	143.0	133.7
Farm machinery	Mar. 13	138.1	138.1	137.2	126.3
All groups combined	Mar. 13	214.8	217.0	214.7	199.0
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Mar. 6	255,552	169,597	222,730	237,292
Production (tons)	Mar. 6	193,205	180,943	177,884	179,025
Percentage of activity	Mar. 6	104	101	100	102
Unfilled orders (tons) at	Mar. 6	480,791	423,510	477,216	614,471
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Mar. 12	146.4	147.2	147.3	155.3
WHOLESALE PRICES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Mar. 6	160.4	159.2	163.8	148.7
Farm products	Mar. 6	187.1	182.8	195.5	181.8
Foods	Mar. 6	172.2	170.5	177.9	170.7
Hides and leather products	Mar. 6	187.9	188.5	198.0	174.2
Textile products	Mar. 6	145.9	146.2	147.0	137.4
Fuel and lighting materials	Mar. 6	131.7	131.7	131.4	96.8
Metal and metal products	Mar. 6	155.7	155.6	154.2	139.7
Building materials	Mar. 6	192.1	192.1	192.1	175.3
Chemicals and allied products	Mar. 6	136.6	135.3	134.3	130.6
Housefurnishings goods	Mar. 6	143.6	143.7	137.7	126.1
Miscellaneous commodities	Mar. 6	119.4	119.0	122.6	111.9
Special groups—					
Raw materials	Mar. 6	176.5	173.9	182.3	162.5
Semi-manufactured articles	Mar. 6	154.1	154.8	156.6	144.0
Manufactured products	Mar. 6	154.3	153.5	156.7	143.7
All commodities other than farm products	Mar. 6	154.4	153.9	156.7	141.4
All commodities other than farm products and foods	Mar. 6	147.3	147.3	147.8	129.4

*Revised figure.

	Latest Month	Previous Month	Year Ago
AMERICAN ZINC INSTITUTE, INC.—Month of January:			
Slab zinc smelter output, all grades (tons of 2,000 lbs.)	71,505	70,669	72,332
Shipments (tons of 2,000 lbs.)	84,431	72,151	74,795
Stock at end of period (tons)	55,085	68,011	173,337
Unfilled orders at end of period (tons)	67,562	59,705	57,630
BUILDING PERMIT VALUATION — DUN & BRADSTREET, INC.—215 CITIES Month of January:			
Geographical Division—			
New England	$22,631,977	$16,943,386	$9,574,920
Middle Atlantic	58,196,738	85,237,545	33,754,580
South Atlantic	36,557,839	28,408,783	16,180,879
East Central	36,812,071	56,116,492	25,195,312
South Central	50,506,031	36,996,411	25,293,550
West Central	10,938,448	16,528,716	7,177,913
Mountain	5,693,485	5,308,082	2,990,209
Pacific	65,176,659	62,546,025	36,363,784
Total United States	$286,513,248	$308,085,440	$156,531,157
New York City	44,144,030	60,794,688	22,229,240
Outside of New York City	242,369,218	247,290,752	134,301,917
DEPARTMENT STORE SALES—SECOND FEDERAL RESERVE DISTRICT, FEDERAL RESERVE BANK OF N. Y. 1935-39 AVERAGE =100—Month of January:			
Sales (average monthly), unadjusted	196	416	186
Sales (average daily), unadjusted	192	408	*183
Sales (average daily), seasonally adjusted	240	241	228
Stocks, unadjusted as of Jan. 31	201	211	206
Stocks seasonally adjusted as of Jan. 31	229	236	234
GRAY IRON CASTINGS (DEPT. OF COMMERCE) Month of December:			
Shipments (short tons)	1,066,211	1,020,239	909,195
For sale (short tons)	587,933	561,660	514,415
For producers' own use (short tons)	478,278	458,579	394,780
Unfilled orders for sale at end of month (short tons)	2,782,236	2,687,244	2,979,658
MAGNESIUM WROUGHT PRODUCTS (DEPT. OF COMMERCE)—Month of December:			
Shipments (in pounds)	275,000	269,000	636,000
MALLEABLE IRON CASTINGS (DEPT. OF COMMERCE)—Month of December:			
Shipments (short tons)	77,757	72,111	68,314
For sale (short tons)	44,042	39,969	39,327
For producers' own use (short tons)	33,715	32,142	28,987
Orders booked, less cancellation for sale (short tons)	39,940	35,784	28,542
Unfilled orders, end of month, for sale (short tons)	202,408	206,510	267,661
MOTOR VEHICLE FACTORY SALES FROM PLANTS IN U. S. (AUTOMOBILE MANUFACTURERS' ASSOCIATION) — Month of January:			
Total number of vehicles	401,644	*469,957	347,696
Number of passenger cars	305,058	*366,939	246,605
Number of motor trucks	95,231	*101,569	99,818
Number of motor coaches	1,355	*1,449	1,273
NEW CAPITAL ISSUES IN GREAT BRITAIN—			
Midland Bank, Ltd.—Month of February	£4,390,000	£38,470,000	£15,834,000
PRICES RECEIVED BY FARMERS — INDEX NUMBER — U. S. DEPT. OF AGRICULTURE August, 1909-July, 1914=100—As of February 15:			
Unadjusted—			
All farm products	279	307	262
Crops	257	284	245
Food grain	251	322	235
Feed grain and hay	261	318	185
Feed grain	289	366	195
Tobacco	374	377	390
Cotton	248	267	246
Fruit	136	135	203
Truck crops	320	320	275
Oil-bearing crops	333	377	334
Livestock and products	300	328	278
Meat animals	331	379	319
Dairy products	307	313	270
Poultry and eggs	218	231	192
Seasonally adjusted—			
Fruit	143	147	211
Truck crops	273	277	230
Dairy products	300	299	264
Poultry and eggs	237	223	206
STEEL CASTINGS (DEPT. OF COMMERCE)— Month of December:			
Shipments (short tons)	148,124	130,125	123,907
For sale (short tons)	110,970	97,143	88,136
For producers' own use (short tons)	37,154	32,982	35,771
Unfilled orders for sale at end of month (short tons)	489,364	493,309	362,787
UNITED STATES EXPORTS AND IMPORTS —BUREAU OF CENSUS—Month of Jan. (000's omitted):			
Exports*	$1,099,800	$1,112,100	------
Commercial	931,900	1,047,900	------
Interim Aid	63,500	21,400	------
Army Civilian Supply	81,400	------	------
UNRRA Administration Program	300	1,100	------
Foreign Relief Program	12,600	33,900	------
Greek-Turkish Aid	9,600	6,900	------
Lend Lease	500	900	------
Imports	543,700	601,100	------
UNITED STATES GROSS DEBT DIRECT AND GUARANTEED—As of Feb. (000's omitted)	$254,683,352	$256,650,614	$261,605,941
General fund balance	4,318,356	4,648,247	7,133,877
Net debt	$250,364,996	$252,002,367	$254,472,064
Computed annual interest rate	2.170%	2.154%	2.066%
U. S. GOVT. STATUTORY DEBT LIMITATION—As of Feb. 28 (000's omitted):			
Total face amount that may be outstanding at any one time	$275,000,000	$275,000,000	$275,000,000
Outstanding—			
Total gross public debt	254,604,511	256,573,665	261,418,229
Guaranteed obligations not owned by the Treasury	78,841	76,948	187,711
Total gross public debt and guaranteed obligations	$254,683,352	$256,650,614	$261,605,941
Deduct—Other outstanding public debt obligations not subject to debt limitation	843,292	848,532	908,209
Grand total outstanding	$253,840,059	$255,802,082	$260,697,732
Balance face amount of obligations issuable under above authority	$21,159,940	$19,197,918	$14,302,267

*Revised figures.

Market Research in Securities

(Continued from page 6)

the seriousness of the situation. Expansion plans of industry have in some instances already been curbed, and operations have been reduced, because stock could not readily be sold. In other cases, expansion has proceeded, but additional debt has been incurred. In his speech Senator Millikin pointed out the important effect which the decline in the availability of private risk capital over several decades has had on the efficiency of England's productive capacity. We all know what have been the attendant social and political effects. Lack of risk capital might even be considered our country's No. 1 problem, if we did not all realize that problem No. 1 lies abroad. However, in the cold war in which we are already engaged, the provision of ample free capital may be the first requirement for the survival of a free economy.

Causes of Insufficient Risk Capital

The insufficient flow of risk capital is due either to there being an insufficient amount of such capital in existence or to an unwillingness of the capital which exists to take the risks of investment in equity securities. A great deal of emphasis has been placed on the first of these two circumstances. This was the point which Senator Millikin made when he said that taxes must be reduced in order that the creation of risk capital may once again take place. But the second cause of an inadequate flow of risk capital should not be overlooked, and here is where in peace, as it did in war, proper sales effort in the securities business can give very important help. And such proper sales effort in the securities business is today not founded on tips and high pressure, but on intelligent market research.

At this point let me give you my conception of the functions which market research in any field has assumed. It seems to me that originally market research simply tried to find out what the customer wanted so that the manufacturer would not make goods that could not be sold. A second step seems to me to have taken place when market research began to interest itself in finding out, not merely the customer's want, but his real needs. And the third step I think took place when market research went back to the production manager and began to cooperate with him in the development of goods which would meet the consumer's real needs. Exactly the same type of sales and market research exists in today's financial community. Numerous firms have established research departments which, working with the sales departments, are the true link between the ultimate buyer of securities and the corporations which require capital funds. In many firms customer contact and company contact are under the direction of the same executives. In our own firm this contact between customers and chemical corporations is my particular charge.

How Market Research Works

I will, therefore, take some instances in the chemical field for my specific examples of how market research works in today's security business. The very names of the companies cited will make clear that the difficulties of securing risk capital in the forms desired do not result from any lack of quality in the securities offered, but rather reflect the lethargy of the capital market.

During 1948, as fine a company as Monsanto Chemical had to be told by its investment bankers that the 250,000 shares of $4 preference stock which it had registered with the SEC would have to be postponed because it could not be sold on the proposed terms. The company, therefore, secured a three-year credit line running up to $25 millions. A little later it revamped the proposed financing into a convertible issue, and with this added attraction the $25 millions of stock money was eventually secured.

Another example involving a smaller company—and again a very good company—was that of Hooker Electrochemical. In the summer of 1947 the stockholders of Hooker authorized a new cumulative preferred which was to be offered in the amount of $11 millions with an approximately 3¾% or 4% dividend rate. This issue would have retired an already outstanding issue of $5 million preferred stock and would also have given approximately $6 millions of equity capital for Hooker's construction program which, as we all know, has been very considerable. All the preliminary work was done, and our own firm, for example, had indications of orders for our entire participation in the new stock. But the general market fell away, and so the plan for issuing $11 million of preferred stock had to be canceled. Later, the company offered to its stockholders 134,000 shares of new common, which raised approximately $2,750,000 for construction, less than half the amount which could have been raised if the equity capital market had not sunk under the weight of offerings.

Flow of Rich Capital Inadequate

These and other instances seem to me to prove specifically that the flow of risk capital is inadequate. The final solution will probably require major tax and other economic changes, and we must also concede that the front-page news has as much bearing on investor's hopes and fears as what appears on the financial page. But granting all this, it is still true, I am sure, that much more than is being done can be done through intelligent sales effort based on market research. Let use see how it works.

When you open your newspaper on a Tuesday morning and read an advertisement that a syndicate has sold $100 million of duPont 3½% Preferred Stock you may not realize this feat is not accomplished for any company merely by the company's going to a leading wholesale investment house, like Morgan, Stanley or First of Boston, a couple of weeks before the offering and saying that they would like to have the financial firm get up a syndicate to sell so many million dollars of securities.

In the first place the big wholesale house does not sell the securities. It can only make arrangements that will enable the many investment houses all over the country who are in contact with the investing public to sell the securities. And it has been demonstrated time and again that these houses cannot, under today's investment practices, not to mention regulations, go out and sell these securities with only three or four weeks of preparation, unless a substantial foundation for the deal has been laid over a course of many months, or more usually, years. This foundation consists in the day-in and day-out work which is done by the investment houses in studying, preferably at first hand, the business fortunes and the management skills of a particular company, and then in acquainting the investment trusts, the large charitable foundations, the insurance companies, and individual investors, with the background and trends of the company. And today the customer wants to be fully acquainted with the demerits as well as the merits of the business or of the company. There are today a multitude of hard headed professional investment managers and counsellors, who examine offerings for both corporate and individual investors. They do not wish merely to be "sold." They want to be "told," and they want to know the adverse circumstances, as well as the favorable ones.

What Investor Wants to Know

In most cases they want to have an established and long continued knowledge of the company before they will buy securities in any substantial amounts. One of the leading investment trusts, for example often buys a small amount of a recommended security as a preliminary step, so that they may have a real but minor stake in its fortunes, and thus be forced to learn all that is available about the company. This somewhat corresponds to a pilot plant operation. But in any case what is essential is work of the type that our firm and others do in going around the country, talking to investors and investment managers week-in and week-out about chemical and other companies, without having any particular offering in mind at the time. And while we thus attempt to increase their knowledge of a company, we learn about their particular investment wants and needs. Thus, investment houses learned some time ago that a number of foundations and insurance companies wanted to continue to get the higher yields which they could receive from preferred stocks as against bonds. But they had begun to fear the adverse effect which a rise in interest rates might have on securities which have no maturity date. So they needed and wanted substantial sinking funds in any new preferred stock, which would eventually redeem the entire issue. These needs, passed back to the company, for example, in the satisfactory sinking fund.

The other side of the picture is the corporation. Here a great deal of improvement can, and eventually I believe, must take place. The investment community cannot perform the function which has just been described if the companies refuse to allow our research departments to get information which we must have about their business. Too many companies still feel that a visitor from Wall Street is merely trying to get an inside tip on next quarter's earnings for purposes of allowing his customers to make a market play. Nothing could be further from the practicalities of today's financial world. Even if we had such ideas, it would simply not pay us to maintain research departments, headed by Harvard Business School or other trained personnel, for such purposes. The very tax laws make such trading peanut business, for the small time speculator, who alone could benefit from a quick gain, could not pay us enough in commissions to compensate our research efforts. What we are interested in is to learn as much as an informed layman can learn about the company's business. We want to see the plants. We want to understand the processes. We want to hear about the products and the prospects for future sales. We want to know about costs and profit margins and new developments. We, incidentally, are interested in the quarterly sales and earnings, if they can be made available, as part of the general picture and as guide posts to business trends. But such information is secondary to the broader purpose, which is to give the ultimate investor the understanding of his company's workings which he does not have time to get for himself.

Companies Should Cooperate With Bankers

Let me assure you that industrial companies are well advised to cooperate with investment houses in their task of acquainting the owners of risk capital with the facts, both adverse and favorable. Capital is timid, and fears are often well founded. But unfounded fears also flourish on ignorance and uncertainty, while the adverse effect of actual or potential difficulties is often reduced if the stockholder or prospective stockholder knows what it is all about. We know so from our own long established experience with owners of capital. It will pay every company, directly or even indirectly as part of a free economy, to help us in our constructive efforts to obtain capital funds to give the corporations new plants and laboratories, to labor more and better jobs, and to the investor, steadier income with fewer risks.

Truman Urges Defense Program

(Continued from first page)

vival of freedom in those nations. It is of vital importance that we act now in order to preserve the conditions under which we can achieve lasting peace based on freedom and justice.

The achievement of such a peace has been the great goal of this nation.

Almost three years have elapsed since the end of the greatest of all wars, but peace and stability have not returned to the world. We were well aware that the end of the fighting would not automatically settle the problems arising out of the war. The re-establishment of peace after the fighting is over has always been a difficult task. And even if all the allies of World War II were united in their desire to establish a just and honorable peace, there would still be great difficulties of achieving that goal.

But the situation in the world today is not primarily the result of the natural difficulties which follow a great war.

It is chiefly due to the fact that one nation has not only refused to co-operate in the establishment of a just and honorable peace but—even worse—has actively sought to prevent it.

The Congress is familiar with the course of events.

You know of the sincere and patient attempts of the democratic nations to find a secure basis for peace through negotiation and agreement. Conference after conference has been held in different parts of the world. We have tried to settle the questions arising out of the war on a basis which would permit the establishment of a just peace.

You know the obstacles we have encountered. But the record stands as a monument to the good faith and integrity of the democratic nations of the world. The agreements we did obtain, imperfect though they were, could have furnished the basis for a just peace—if they had been kept.

But they were not kept.

They have been persistently ignored and violated by one nation.

The Congress is also familiar with the developments concerning the United Nations. Most of the countries of the world have joined together in the United Nations in an attempt to build a world order based on law and not on force. Most of the members support the United Nations earnestly and honestly, and seek to make it stronger and more effective.

One Nation Obstructs Work for Peace

One nation, however, has persistently obstructed the work of the United Nations by constant abuse of the veto. That nation has vetoed twenty-one proposals for action in a little over two years.

But that is not all. Since the close of hostilities, the Soviet Union and its agents have destroyed the independence and democratic character of a whole series of nations in eastern and central Europe.

It is this ruthless course of action, and the clear design to extend it to the remaining free nations of Europe, that have brought about the critical situation in Europe today.

The tragic death of the republic of Czechoslovakia has sent a shock throughout the civilized world. Now pressure is being brought to bear on Finland, to the hazard of the entire Scandinavian peninsula. Greece is under direct military attack from rebels actively supported by the Communist-dominated neighbors. In Italy, a determined and aggressive effort is being made by a Communist minority to take control of that country. The methods vary, but the pattern is all too clear.

Faced with this growing menace, there have been encouraging signs that the free nations of Europe are drawing closer together for their economic well-being and for the common defense of their liberties.

European Cooperation With ERP Under Way

In the economic field, the movement for mutual self-help to restore conditions essential to the preservation of free institutions is well under way. In Paris, the sixteen nations which are cooperating in the European Recovery Program are meeting again to establish a joint organization to work for the economic restoration of western Europe.

The United States has strongly supported the efforts of these nations to repair the devastation of war and restore a sound world economy. In presenting this program to the Congress last December, I emphasized the necessity for speedy action. Every event in Europe since that day has underlined the great urgency for the prompt adoption of this measure.

The Soviet Union and its satellites were invited to cooperate in the European Recovery Program. They rejected the invitation. More than that, they have declared their violent hostility to the program and are aggressively attempting to wreck it.

They see in it a major obstacle to their designs to subjugate the free community of Europe. They do not want the United States to help Europe. They do not even want the 16 cooperating countries to help themselves.

Must Afford Protection Against Internal and External Aggression

While economic recovery in Europe is essential, measures for economic rehabilitation alone are not enough. The free nations of Europe realize that economic recovery, if it is to succeed, must be afforded some measure of protection against internal and external aggression. The movement toward economic cooperation has been followed by a movement toward common self-protection in the face of the growing menace to their freedom.

At the very moment I am addressing you, five nations of the European community, in Brussels, are signing a 50-year agreement for economic cooperation and common defense against aggression.

This action has great significance, for this agreement was not imposed by the decree of a more powerful neighbor. It was the free choice of independent governments representing the will of their people, and acting within the terms of the charter of the United Nations.

Its significance goes far beyond the actual terms of the agreement itself. It is a notable step in the

direction of unity in Europe for the protection and preservation of its civilization. This development deserves our full support. I am confident that the United States will, by appropriate means, extend to the free nations the support which the situation requires. I am sure that the determination of the free countries of Europe to protect themselves will be matched by an equal determination on our part to help them to do so.

The recent developments in Europe present this nation with fundamental issues of vital importance.

Position of U. S. Must Be Made Clear

I believe that we have reached a point at which the position of the United States should be made unmistakably clear.

The principles and purposes expressed in the charter of the United Nations continue to represent our hope for the eventual establishment of the rule of law in international affairs. The charter constitutes the basic expression of the code of international ethics to which this country is dedicated. We cannot, however, close our eyes to the harsh fact that through obstruction and even defiance on the part of the nation, this great dream has not yet become a reality.

It is necessary, therefore, that we take additional measures to supplement the work of the United Nations and to support its aims. There are times in world history when it is far wiser to act than to hesitate. There is some risk involved in action—there always is. But there is far more risk in failure to act.

For if we act wisely now, we shall strengthen the powerful forces of freedom, justice and peace which are represented by the United Nations and the free nations of the world.

Measures Recommended

I regard it as my duty, therefore, to recommend to the Congress those measures which, in my judgment, are best calculated to give support to the free and democratic nations of Europe and to improve the solid foundation of our own national strength.

I believe that we have learned the importance of maintaining military strength as a means of preventing war. We have found that a sound military system is necessary in time of peace if we are to remain at peace. Aggressors in the past, relying on our apparent lack of military force, have unwisely precipitated war. Although they have been led to destruction by their misconception of our strength we have paid a terrible price for our unpreparedness.

Universal training is the only feasible means by which the civilian components of our armed forces can be built up to the strength required if we are to be prepared for emergencies. Our ability to mobilize large numbers of trained men in time of emergency could forestall future conflict and, together with other measures of national policy, could restore stability to the world.

The adoption of universal training by the United States at this time would be unmistakable evidence to all the world of our determination to back the will to peace with the strength for peace. I am convinced that the decision of the American people, expressed through the Congress, to adopt universal training would be of first importance in giving courage to every free government in the world.

Third, I recommend the temporary re-enactment of selective service legislation in order to maintain our armed forces at their authorized strength.

Our armed forces lack the necessary men to maintain their authorized strength. They have been unable to maintain their authorized strength through voluntary enlistments, even though such strength has been reduced to the very minimum necessary to meet our obligations abroad and is far below the minimum which should always be available in the continental United States.

Must Have Armed Forces to Meet Responsibilities

We cannot meet our international responsibilities unless we maintain our armed forces. It is of vital importance, for example that we keep our occupation forces in Germany until the peace is secure in Europe.

There is no conflict between the requirements of selective service for the regular forces and universal training for the reserve components. Selective service is necessary until the solid foundation of universal training can be established. Selective service can then be terminated and the regular forces may then be maintained on a voluntary basis.

The recommendations I have made represent the most urgent steps toward securing the peace and preventing war.

We must be ready to take every wise and necessary step to carry out this great purpose. This will require assistance to other nations. It will require an adequate and balanced military strength. We must be prepared to pay the price of peace, or assuredly we shall pay the price of war.

We in the United States remain determined to seek, by every possible means, a just and honorable basis for the settlement of international issues. We shall continue to give our strong allegiance to the United Nations as the principal means for international security based on law, not on force. We shall remain ready and anxious to join with all nations—I repeat with all nations—in every possible effort to reach international understanding and agreement.

Door Not Closed Against Soviet

The door has never been closed, nor will it ever be closed, to the Soviet Union or any other nation which will genuinely cooperate in preserving the peace.

At the same time, we must not be confused about the central issue which confronts the world today.

The time has come when the free men and women of the world must face the threat to their liberty squarely and courageously.

The United States has a tremendous responsibility to act according to the measure of our power for good in the world. We have learned that we must earn the peace we seek just as we earned victory in war, not by wishful thinking, but by realistic effort.

At no time in our history has unity among our people been so vital as it is at the present time.

Unity of purpose, unity of effort and unity of spirit are essential to accomplish the task before us.

Each of us here in this chamber today has a special responsibility. The world situation is too critical, and the responsibilities of this country are too vast, to permit party struggles to weaken our influence for maintaining peace.

The American people have the right to assume that political considerations will not affect our working together. They have the right to assume that we will join hands, wholeheartedly and without reservation, in our efforts to preserve peace in the world.

With God's help we shall succeed.

F. I. du Pont Co. Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Everett F. Morgan, formerly with John J. O'Brien & Co., has become connected with Francis I. du Pont & Co., 200 South La Salle Street.

Restore Free Gold Market in U. S.!

(Continued from page 17)

tificially high rate, most of the countries were fearful of the value of the currencies of their neighbors. As a result, they would not accept them. They would accept only dollars or gold. Gold was scarce to start with because we have approximately two-thirds of the world's supply. Dollars alone are insufficient in number to support the world's trade. The dollars were sent to us in ever-increasing quantities until the rest of the world's business began to stagnate for lack of a monetary medium. The world is faced with either of two choices: (1) to continue until we had a world-wide collapse, or, (2) to establish a free market for gold which would determine daily the actual value of every currency and would enable the world's traders to resume their business.

Proposals

I, therefore, propose the establishment of a free market for newly mined gold in the United States at once.

I further propose the removal of the restrictions upon American citizens owning gold.

I also propose that the articles of the gold act remain the same, including the purchase of all gold offered the Treasury at $35 per ounce.

Arguments for the Proposals

The arguments for the proposals taken in order are:

Establishment of a free market for newly mined gold in the United States would be a market for all newly mined gold, whether of American origin or not. Purchasers would have the right to export to whatever country freely, although after securing an export permit from the Treasury. This would have a four-fold result. Immediately the value of every currency would be accurately determined. What is more, a day-to-day check would be kept on the value of every currency. Secondly, it would make available to the gold producer the premium market now closed to him by a set of silly restrictions. Thirdly, the establishment of convertibility factors to gold for currency would re-open the arteries of trade, the first essential to establishment of world peace. Fourth, it would stop the inflow of gold to the United States and start a better distribution throughout the world.

Removal of the restriction on holding of gold by American citizens: The holding of gold by American citizens is in itself of no greater importance than the holding of a quantity of copper or silver by a citizen. However, gold is not a commodity directly comparable to copper or silver because it is the backbone of our currency system and the currency systems of the world.

I quote Mr. Walter E. Spahr in his article in the Dec. 1, 1947 issue of "Monetary Notes," published by The Economists' National Committee on Monetary Policy. He said: "A gold coin standard provides the people with direct control of the government's use and abuse of the public purse."

Restoration to the people of the right to hold gold returns to them control over the public purse. It helps to do another thing—it helps to re-establish that the government is the servant of the people—rather than the reverse.

You will note that I have not recommended the issuance of gold coin, but only that American citizens may own gold. Within a year a free market would determine the value of each currency, including the dollar. When a free marekt has established the value of the dollar, I would propose the issuance of gold coin upon the basis of the price then determined.

The amount of gold to be issued would be ten billion dollars, at the rate of two billions a year. The issuance of this amount would remove 10 of the 18 billion dollars increase in paper in circulation since 1941.

Maintenance of a minimum fixed price of $35 per ounce would, frankly, stabilize a minimum price for gold held by whatever group and would guarantee producers that minimum. It would do more than that—it would guarantee the value of purchasing power of the 16 billion dollars held outside the United States.

The gold coin to be minted in 1949 should be a commemorative coin, commemorating the discovery of gold in California, a fortunate event which alone contributed more to the acquisition of that empire we call the "West" than any other single event, an event that is most certainly deserving of being commemorated fittingly by the United States.

The Heavy Industries And Their Securities

(Continued from page 10)

a large percentage. Again, with the downturn in general business in 1938, heavy industry profits quickly fell off sharply or were converted into deficits. In most companies, dividends promptly were cut or omitted.

The outbreak of war in Europe in 1939, this country's preparation for war, and our involvement in 1941 produced feverish activity among the heavy industry companies. However, after 1940 and 1941 these companies faded gradually under the impact of excess profits taxation, renegotiation and the combination of price controls and steadily rising costs. The initial postwar year 1946 was marked by a series of major handicaps including the problems of reconversion, strikes in most industries, rising costs and the continuation of price controls on most products until the closing weeks of the year. In 1947, however, heavy industry enjoyed its first full postwar year of uninterrupted production, and a definite improvement in the price-cost relationship. The result was a whole series of new sales and earnings records and, to a lesser extent, increased dividends.

At the present time, when there are increasing signs that at least some of the non-durable goods industries have satisfied the initial flush of postwar demand, demand for the products of heavy industry, generally speaking, is unabated. Despite their record production attainments of the past 18 months, these companies apparently have not yet been able to satisfy more than a part of the accumulated demand. We should not overlook the fact that during most of the 1930's and the succeeding war period many parts of the nation's productive machine were literally starved for replacement. Huge amounts of deferred maintenance piled up. Much old or obsolete capital equipment, subjected to abnormal usage during the war, is having to be replaced. It is the fact that, considered over-all there was comparatively little addition to the nation's productive machine from the early 1930's to the outbreak of the war, yet the nation's population has increased about 20% since 1930.

Outlook for Heavy Industries

The combination of these influences, plus an avid and continuing demand for our capital goods from export markets, should keep the producers of capital goods active for some time ahead. This could be true even in the face of a further decline in the manufacture of consumers non-durables. Industry in this country needs to spend large sums for further replacement and expansion of plant and equipment, and has the money to pay for it. The need for capital goods to rebuild war-torn areas abroad is obvious, and this country must be the source of most. That need may well be translated into orders under the European Recovery Program, or some other form of financial assistance.

I must hasten to add that, while the over-all prospects for the heavy industry companies seem favorable, there is need for very careful selection within the group. Despite the high rates of activity, and profits, which have characterized the group during the past year or so, not all companies have benefited. For example, many of the machine tool builders had a poor year in 1947, finding it difficult to compete with war surplus. The builders of railroad cars and locomotives had an indifferent year, and some a downright poor year, in 1947; the former mainly because of shortages of materials and parts, the latter because of the necessity for changing plants to make diesel power rather than steam. In the steel industry, too, while total capacity was operated at 93% last year, electric furnaces operated only at 74%, and production of tool steels averaged only about 40%.

In concluding, therefore, I want to stress the need for care in making security selections among the heavy industry companies. Also, I would like to underline the fact that because of the volatile character of heavy industry product demand, and the even more volatile pattern of earnings and dividends, the securities of these companies, for the most part, have a distinctly speculative flavor. Yet it is equally true that, taking both fields, as entities, the stocks of the capital goods producers in the past have not shown materially greater price changes over the course of an entire cycle than the stocks of consumers goods producers.

Business Man's Bookshelf

Debits and Clearings Statistics: Their Background and Interpretation — George Garvy — Board of Governors of the Federal Reserve System, Washington, D. C.—paper.

Inter-American Economic Relations, Problems and Prospects— Richard F. Behrendt—Committee on International Economic Policy, 405 West 117th Street, New York 27, N. Y.—paper.

Trouble Spots in Taxation— **Harold M. Groves** — Princeton University Press for the University of Cincinnati—Princeton University Press, Princeton, N. J.—cloth—$2.00.

Whaling and Whale Oil During and After World War II—Karl Brandt—Food Research Institute, Stanford University, Stanford, California—paper 50c.

Securities Now in Registration

● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

● Adanac Enterprises, Los Angeles, Calif.
Feb. 20 (letter of notification) 2,500 shares of capital stock ($1 par). No underwriter. For business operation.

All American Industries, Inc., New York
Oct. 30 filed 100,000 shares ($1 par) common (name to be changed to American Steel & Pump Corp.) **Underwriter**—Herrick, Waddell & Co., New York. Price by amendment. **Proceeds**—To pay off indebtedness incurred in the acquisition of the capital stock of A. D. Cook, Inc., Lawrenceburg, Ind. Indefinite.

American Broadcasting Co., Inc., New York
Feb. 13, filed 250,000 shares common ($1 par) at proposed maximum offering price of $12.50 per share. **Underwriters**—None. **Proceeds**—For corporate purposes. Company now has plans to spend about $5,325,000 for television facilities in New York, Los Angeles, Chicago San Francisco and Detroit. Shares will be sold to "the persons with which the company had network affiliation agreements at Jan. 31, 1948, and to such other persons as may be selected from time to time by the company."

● American Machinery Corp., Orlando, Fla.
March 11 (letter of notification) $295,000 10-year first mortgage convertible 6% bonds, due 1958, and an undetermined number of common shares (20c. par), to be held for conversion on bonds. **Underwriter**—Gordon Graves & Co., New York. To pay income taxes and for working capital.

Angus Mines, Ltd., Montreal, Canada
Feb. 12 filed 600,000 shares of common capital stock ($1 par). **Underwriter**—James A. Robb, 70 Pine St., New York. **Proceeds**—To develop gold prospects.

● Arapahoe Chemicals, Inc., Boulder, Colo.
March 11 (letter of notification) 146 shares of 6% convertible preferred stock and 438 shares (no par) common stock, to be reserved for the exchange. Preferred to be sold at $100 each. For operating capital. No underwriting.

● Armstrong Furnace Co., Columbus, Ohio
Feb. 24 (letter of notification) 2,500 shares of series B 5% cumulative preferred stock ($100 par). No underwriter. To increase working capital.

● Associated Telephone Co., Ltd., Santa Monica, California
March 15 filed 75,000 shares of 5% cumulative preferred stock ($20 par), 1947 series. **Underwriter**—Paine, Webber, Jackson & Curtis, New York, and Mitchum, Tully & Co., San Francisco. **Price**—$21 per share. **Proceeds**—To expand facilities. **Business**—Local telephone service in Southern California communities.

Atlantic Coast Fisheries Co., Boston, Mass.
Feb. 2 filed $556,500 4½% general mortgage and collateral trust convertible bonds and 166,950 shares ($1 par) common stock. **Underwriter**—Doolittle & Co., Buffalo. **Offering**—The bonds are being offered to stockholders at the rate of $1,500 of bonds for each 1,000 shares of common stock held. The stock will be reserved against conversion of the bonds. Unsubscribed bonds will be publicly offered by underwriter. **Proceeds**—General corporate purposes.

● Auto Finance Corp., Charlotte, N. C.
March 10 (letter of notification) 6,000 shares of 5½% cumulative preferred stock. **Price**—$50 each. **Underwriters**—Interstate Securities Corp., Charlotte, N. C.; Citizens Trust Co., Greenwood, S. C. and others. For additional working capital and general corporate purposes.

● Birtcher Corp., Los Angeles, Calif.
March 9 (letter of notification) 2,500 shares of preferred stock. **Price**—$100 each. Convertible into 35 shares of no par value common stock up to Dec. 30, 1952. For expansion purposes. No underwriting.

Black Hills Power & Light Co., Rapid City, S. D.
March 3 (letter of notification) 19,900 shares common ($1 par). **Underwriter**—Dillon, Read & Co. Inc. offered for subscription by common stockholders of record March 11 at $15 per share. Rights expire 3 p.m. (CST) March 22. For construction and to reduce bank loans.

● Broadway Department Store, Inc., Los Angeles
March 11 filed 80,000 shares of cumulative preferred stock ($25 par). **Underwriter**—Blyth & Co., Inc. Interest rate and offering terms by amendment. **Proceeds**—To redeem $3,000,000 short-term bank loans payable to Security-First National Bank, Los Angeles.

Brockway (Pa.) Glass Co., Inc.
Feb. 26 filed 5,000 shares of 5% cumulative preferred stock (par $50) and 7,150 shares of common stock (par $50). **Underwriting**—None. **Offering**—Both issues will be offered at $50 per share to residents of Brockway. **Proceeds**—Construction and purchase of new equipment.

Brown Radio Productions, Inc., Nashville, Tenn.
Feb. 24 (letter of notification) 1,250 shares ($1 par) common stock. **Price**—$8.75 each. To be sold by Charles H. Brown and S. W. Brown, Jr. **Underwriter**—Mid-South Securities Co., Nashville, Tenn.

Cameron Aero Engine Corp.
Dec. 29 (letter of notification) 101,000 shares of common stock (par $1), of which 85,000 shares will be sold to the public; 8,500 shares will be issued to underwriters as additional underwriting consideration and 7,500 shares will be issued to American Die & Tool Co. for investment in return for cancelling $15,000 open account for machine tools. **Price**—$2 per share. **Underwriters**—R. A. Keppler & Co., Inc. and Henry P. Rosenfeld & Co., New York. To provide operating funds, etc.

Central Chemical Corp., Hagerstown, Md.
Dec. 29 filed 254,682 shares ($10 par) non cumulative 6% stock and 70,643 shares ($10 par) non-voting common Class B stock. **Underwriters**—To be sold through company officers and employees to stockholders, employees and customers without underwriting. **Price**—At par. **Proceeds**—To retire indebtedness and for working capital.

Central Maine Power Co.
Nov. 10 filed 160,000 shares ($10 par) common. **Underwriting**—To be determined by competitive bidding. On Dec. 8 only one bid, that of Blyth & Co., Inc. and Kidder, Peabody & Co. was submitted and was rejected by the company. They bid $13.75, less $1.75 underwriting commission. **Offering**—To be offered to 6% preferred and common stockholders for subscription on the basis of one-half share of new common for each preferred share and one-tenth share of new common for each common share held. Price by amendment. **Proceeds**—For construction and repayment of bank loans.

Central Power & Light Co.
Nov. 21 filed 40,000 shares ($100 par) cumulative preferred. **Underwriter**—Kidder, Peabody & Co. **Proceeds**—For property additions and expenses. Expected late this month.

● Centroid Consolidated Mines, Yuma County, Arizona
Feb. 25 (letter of notification) 100,000 shares. **Underwriter**—J. Bailery Gladden, Yuma, Ariz. For the continuance of the company's mining operations.

Century Steel Corp., Hollydale, Calif.
Nov. 10 filed 4,000 shares ($100 par) common. **Underwriting**—None. Shares will be sold at par by directors. **Proceeds**—To purchase rolling mill, equipment and for working capital.

Challenger Airlines Co., Salt Lake City, Utah
March 1 filed 600,000 shares ($1 par) common stock, of which 400,000 are being sold for the company and 200,000 for the account of Claude Neon, Inc. **Underwriting**—None. **Price**—$2 a share. **Proceeds**—For equipment purchase and general funds.

● Channel Wing Aircraft Co., Wisconsin Rapids, Wisconsin
March 1 (letter of notification) 30,000 shares ($10 par). No underwriter. To develop, obtain Civil Aeronautics Authority approval, obtain military contracts and sublease to other manufacturers aircraft or any of its component parts covered by patents.

City Title Insurance Co., New York
Feb. 25 (letter of notification) 5,000 shares of capital stock. **Price**—$9. To be offered stockholders of record Jan. 20 for subscription in ratio of one new share for each six shares held. Rights expire 3 p.m. March 23. Unsubscribed portion will be taken up by Chilson Newberry Co., Inc., Kingston, N. Y. General corporate purposes.

● Colonial Stores, Inc., Norfolk, Va.
March 16 filed 40,000 shares of 5% cumulative preferred stock ($50 par), and 49,431 shares of common stock ($2.50 par). **Underwriter**—Hemphill, Noyes & Co., New York. **Offering**—New common stock to be offered present stockholders at rate of one new share for each 12½ now held. **Price**—By amendment. **Proceeds**—To buy machinery, trade fixtures and equipment for new stores. **Business**—Grocery stores.

Columbia Gas & Electric Corp. (3/23)
Feb. 20 filed $45,000,000 of debentures, due 1973. **Underwriters**—To be determined under competitive bidding. **Probable Bidders**—Morgan Stanley & Co.; The First Boston Corp.; Halsey, Stuart & Co. Inc. **Proceeds**—To finance a construction program. **Bids**—Bids for purchase of the debentures will be received at company's office, 61 Broadway, New York, up to 11 a.m. (EST) March 23.

● Comstock Extension Mining Co., Inc., Phoenix, Arizona
Feb. 26 (letter of notification) 100,000 shares of stock ($1 par). No underwriter. For mining development.

Consolidated Edison Co. of N. Y., Inc. (3/25)
March 1 filed $57,382,600 of 3% convertible debentures, due 1963. Convertible at the rate of one common stock share for each $25 of debentures. **Offering**—Common stockholders of record March 25 will be given right to subscribe for debentures in ratio of $5 of debentures for each share held. Rights will expire 3 p.m. (EST) April 15. **Underwriting**—Unsubscribed debentures will be offered at competitive bidding. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc.; The First Boston Corp. **Proceeds**—To redeem on May 1 at $105 a share a total of 273,566 shares of outstanding $5 cumulative preferred stock and to reimburse treasury for expansion expenditures.

● Consolidated Natural Gas Co., New York
March 15 filed $30,000,000 of debentures, due 1968. Int. rate and price by amendment. **Underwriters**—To be determined through competitive bidding. Probable bidders include: White, Weld & Co. and Paine, Webber, Jackson & Curtis (jointly); Dillion, Read & Co. Inc.; The First Boston Corp.; Halsey, Stuart & Co. Inc; Morgan Stanley & Co. **Proceeds**—To be added to general funds for purchase of additional capital stock in the company's operating subsidiaries. **Business**—Holding company for five natural gas operating companies.

● Construction Products Corp., Lynwood, Calif.
March 11 (letter of notification)—5,000 shares ($20 par) preferred stock; 20,000 shares of Class A common stock ($1 par) and 20,000 shares of common stock, to be issued to present stockholders as promotional stock. **Price**—Preferred par, class A common $10. To be used for two plants and working capital. No underwriting.

Consumers Cooperative Assoc., Kansas City, Missouri
Oct. 16 filed $1,000,000 4% non-cumulative common stock ($25 par); $4,000,000 of 3½% certificates of indebtedness cumulative; and $1,000,000 of 1½% loan certificates cumulative. No underwriting. **Offering**—To the public. Common may be bought only by patrons and members. **Price**—At face amount. **Proceeds**—For acquisition of additional office and plant facilities.

Crampton Manufacturing Co. (4/1)
Feb. 5 filed $600,000 first mortgage 5½% sinking fund bonds, due 1966, with warrants to purchase 60,000 shares ($1 par) common stock. **Underwriter**—P. W. Brooks & Co., Inc., New York. **Proceeds**—To retire secured indebtedness, finance inventories and supplement working capital.

Cribben & Sexton Co., Chicago, Ill.
March 5 (letter of notification) 1,500 shares of common ($5 par). **Underwriter**—Swift, Henke & Co., Chicago. Proceeds to selling stockholders.

Dallas (Texas) Power & Light Co. (4/20)
Feb. 26 filed 68,250 shares of common (no par) $4,000,000 25-year sinking fund debentures, due 1973. **Underwriting**—Debentures to be offered competitively. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Blyth & Co., Inc.; Equitable Securities Corp.; Harriman, Ripley & Co.; Glore, Forgan & Co., and W. C. Langley & Co. (jointly). **Offering**—Debentures will be offered publicly. Stock will be offered present stockholders on basis of one new share for each four held. **Price**—Common stock, $60 a share. **Proceeds**—Construction program. Expected about April 20.

Domestic Credit Corp., Chicago
Dec. 29 filed 150,000 shares ($1 par) Class A Common. **Underwriters**—None. **Offering**—To be offered to employees, executives and management personnel. **Price**—$3.49 a share. **Proceeds**—For working capital.

● Dynaflow Solder Corp., Larie Place, L. I.
March 15 (letter of notification) 750 shares of capital stock. **Price**—$25 per share. **Underwriting**—None. For working capital, etc.

● Elmena Mining Co., Searchlight, Nev.
March 11 (letter of notification) 25,000 shares ($1 par) capital stock. For machinery and working capital. No underwriting.

Equipment Finance Corp., Chicago, Ill.
Feb. 26 filed 15,000 shares ($100 par) preferred stock. **Offering**—To be sold to employees and officers of the company and its parent, Curtiss Candy Co. **Price**—$100 per share. **Proceeds**—To be used for trucks in connection with the Curtiss' franchise method of distribution.

Federal Electric Products Co., Newark, N. J.
Feb. 27 filed 150,000 shares ($1 par) common stock. **Underwriting**—To be filed by amendment. **Proceeds**—To repay loans made by the company and a subsidiary, Cole Industries, Inc.

NEW ISSUE CALENDAR

March 18, 1948

Illinois Central RR.____________Equip. Trust Ctfs.

March 19, 1948

Wilson-Jones Co.____________________Common

March 22, 1948

Kansas Gas & Electric Co., noon (EST)_____Bonds
Louisville Gas & Electric Co.
10:30 a.m. (CST)__________________________Bonds
West Penn Power Co.
Noon (EST)_______________Bonds and Preferred

March 23, 1948

Columbia Gas & Electric Corp.
11 a.m. (EST)_____________________Debentures
Denver & Rio Grande Western__Equip. Trust Ctfs.
Public Service Co. of N. H.______Common Stock

March 25, 1948

Consolidated Edison Co. of N. Y. Inc.___Debentures

March 29, 1948

Chicago Milwaukee St. Paul & Pacific
Noon (CST)______________________Equip. Trust Ctfs.
Texas Electric Service Co.___Bonds and Debentures
Utah Power & Light Co.
Noon (EST)_____________Bonds and Debentures

March 30, 1948

Florida Power Corp.____________Pref. and Common

March 31, 1948

Ohio Power Co.______________________________Bonds

April 1, 1948

Crampton Manufacturing Co.________________Bonds

April 5, 1948

Michigan Consolidated Gas Co.______________Bonds
Mountain States Tel. & Tel. Co.____________Bonds

April 6, 1948

Southern Counties Gas Co. of Calif._________Bonds
Virginia Electric & Power Co.___________Debentures

April 20, 1948

Dallas Power & Light Co._________Bonds and Stock

May 4, 1948

Southern California Gas Co. (Calif.)_________Bonds

Fitzsimmons Stores, Ltd., Los Angeles, Calif.
Feb. 2 filed 10,000 shares of 6% cumulative first preferred stock ($100 par). **Underwriting**—Officers, directors and employees of the company will offer the stock to friends and associates. **Price**—$100 per share. **Proceeds**—To retire 7% preferred stock. Business: "Super Markets" in Los Angeles, Riverside, Colton and San Bernardino County.

Florida Power Corp. (3/30)
March 2 filed 40,000 shares ($100 par) cumulative preferred stock and 110,000 shares ($7.50 par) common stock. **Underwriters**—Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane. **Offering**—Common stockholders may purchase the new common stock at the rate of one new share for each 10 held. **Proceeds**—Construction expenditures.

● **Flotill Products, Inc., Stockton, Calif.**
March 6 filed 385,000 shares of 60 cent convertible preferred stock (par $5) and 325,000 shares of common stock (par $1). **Underwriter** — Floyd D. Cerf Co., Chicago. **Price**—preferred $10; common $6. **Proceeds** — Stockholders will sell 260,000 preferred shares and 250,000 common shares and company 125,000 preferred shares and 75,000 common shares. The company's proceeds will be used for general corporate purposes. **Business**—Tomato products, variety of fruits and vegetables.

● **1441 Harvard Corp., Washington, D. C.**
March 1 (letter of notification) 1,275 shares of capital stock ($100 par). No underwriter. To pay the owner of the building for the value of the property.

Fraser Products Co., Detroit, Mich.
Oct. 21 filed 100,000 shares ($1 par) common. **Underwriters** — Campbell, McCarty & Co., and Keane & Co., both Detroit. **Price**—$5.25 per share. **Proceeds**—The shares are being sold by 14 stockholders who will receive proceeds. Registration statement effective Jan. 16.

● **Frozen Food Distributors, Inc., New Haven, Connecticut.**
March 2 (letter of notification) 1,000 shares Class A preferred stock ($50 par) and 1,250 shares Class A common stock ($10 par). No underwriter. For working capital.

● **Georgia Hardwood Lumber Co., Augusta, Ga.**
March 11 filed 69,500 shares $1 convertible cumulative preferred stock (no par) and 10,425 shares of common stock ($1 par). **Underwriter**—Reynolds & Co. Price by amendment. **Proceeds** — To selling stockholders—(Equitable Securities Corp., A. C. Allyn & Co., Inc., and Clement A. Evans & Co., Inc.)

● **Gerson (Paul) Institute, Inc., Las Vegas, Nev.**
March 11 (letter of notification) 8,000 shares of 6% cumulative preferred stock ($5 par) and 2,000 common shares ($5). To be offered in units of four preferred and one common share at $25 per unit. For building and promotion. No underwriting.

● **Gladding's Inc., Providence, R. I.**
March 1 (letter of notification) 10,000 shares common stock ($10 par). To provide additional working capital and finance current branch store operations. No underwriters.

● **Golden Sceptre Mining Co., Ltd., Spokane, Washington**
Feb. 26 filed 250,000 shares of common stock (par 5¢). No underwriters. For machines and supplies.

● **Graham-Newman Corp., New York, N. Y.**
March 11 filed 11,657 shares stock ($50 minimum stated value). **Underwriting**—None. **Offering**—11,571⅔ shares are being offered pro rata to stockholders on basis of one share for each three held, at $100 per share; 85⅓ shares are being offered at net asset value at $110.61 per share.

Home Telephone & Telegraph Co. of Virginia, Emporia, Va.
Feb. 11 (letter of notification) 57,600 shares capital stock ($5 par). Underwriters, none. Of the proceeds $150,000 will be used to reduce outstanding short-term bank loans and balance to further company's construction program.

International Asbestos Co., Ltd., Sherbrooke, Quebec
Jan. 30 filed 1,500,000 shares ($1 par) common stock. **Underwriter**—Paul E. Frechette, Hartford, Conn., is the U. S. authorized agent and principal underwriter. **Price**—$1 each. **Proceeds**—To construct milling plant and purchase equipment.

Interstate Power Co., Dubuque, Ia.
Feb. 5 filed $20,000,000 first mortgage bonds, due 1978; $5,000,000 sinking fund debentures, due 1968 (to be placed privately), and 1,500,000 shares ($3.50 par) common stock (only such amount to raise $3,635,500). **Underwriter** — Smith, Barney & Co., New York. Price and interest rates by amendment. **Proceeds**—To permit consummation of the company's reorganization plan. Expected at early date.

I-Odoral, Inc., Wilkinsburg, Pa.
March 8 (letter of notification) 200,000 shares of common stock (par $1). **Price**—$1 per share. **Underwriter**—Sterling Graham Co., Pittsburgh. Purchase of products, etc.

Johnson Bronze Co., New Castle, Pa.
Nov. 10 filed 150,000 shares common stock (par 50¢). **Underwriter**—Lee Higginson Corp. **Proceeds** — Stock being sold for account J. P. Flaherty, a stockholder.

Kansas Soya Products Co., Inc., Emporia, Kans.
Dec. 3 (letter of notification) 3,157 shares ($95 par) preferred. **Price**—$95 a share. **Undewriter**—Kenneth Van Sickle, Inc., Emporia. For additional working capital.

Kansas Gas & Electric Co. (3/22)
Feb. 11 filed $5,000,000 first mortgage bonds due 1978. **Underwriters**—To be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp. and Blyth & Co., Inc. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Lehman Brothers, Bear, Stearns & Co. and Stern Bros. & Co. (jointly); Shield & Co. and E. H. Rollins & Sons (jointly); Harriman Ripley & Co.; White, Weld & Co. and Kidder, Peabody & Co. **Proceeds**—For construction and other corporate purposes. **Bids**—Bids for purchase of the bonds will be received by the company at Room 2033, No. 2 Rector St., New York, up to noon (EST) March 22.

Kingston Products Corp., Kokomo, Ind.
March 5 (letter of notification) 14,618 shares common ($1 par). **Underwriter**—Alison & Co., Detroit. Proceeds to selling stockholders.

La Vida Trout Club, Inc., Puente, Calif.
Feb. 19 (letter of notification) 1,480 shares ($100 par) common stock. **Price**—Par. **Underwriter**—Fewel & Co., Long Beach, Calif. For accounts payable.

Legend Gold Mines, Ltd., Toronto, Canada
June 27 filed 300,000 shares ($1 par) common treasury stock. **Underwriting** — To be supplied by amendment. **Price**—50 cents a share. **Proceeds**—To develop mining properties.

Louisville (Ky.) Gas & Electric Co. (3/22)
Feb. 12 filed $8,000,000 first and refunding mortgage bonds, due March 1, 1978. **Underwriters**—To be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers and Blyth & Co., Inc. (jointly); the First Boston Corp.; Harriman, Ripley & Co.; Glore, Forgan & Co.; Kidder, Peabody & Co. **Proceeds**—To pay $2,450,000 of short-term bank loans and to reimburse treasury for expense of property extensions and improvements. **Bids**—Bids for purchase of the bonds will be received up to 10:30 a.m. (CST) March 22 at Room 1100, 231 So. La Salle St., Chicago.

McClanahan Oil Co., Grand Rapids, Mich.
Dec. 30 filed 260,000 shares ($1 par) capital stock. **Underwriters**—None. **Offering**—Shares will be exchanged for $1 par stock of Great Lakes Chemical Corp. on the basis of one share of McClanahan common for each two shares of Great Lakes common. Offer will expire March 15, 1948.

Market Basket, Pasadena, Calif.
Dec. 30 filed 27,788 shares (50c par) common. **Underwriters**—None. **Offering**—Shares are to be issued upon exercise of common stock purchase warrants issued in July, 1945. **Price**—Two shares per warrant at $6 a share. **Proceeds**—For additional working capital.

Markley Corp., Plainville, Conn.
March 8 (letter of notification) 37,790 shares of common ($1 par) and 12,000 warrants for holders to purchase a like number of shares at $6 per share. **Underwriter**—Coburn & Middlebrook, Hartford, Conn. To finance work and discharge debts.

● **Marshall (John) Insurance Co., Chicago**
March 9 (letter of notification) 9,000 shares ($7 par) common stock. To be sold at $12 each. For general working funds. No underwriting.

● **Merrimack Farmers' Exchange, Inc., Concord, New Hampshire**
Feb. 27 (letter of notification) 8,000 shares of common ($25 par). No underwriter. For payment of current indebtedness and working capital.

Michigan Consolidated Gas Co. (4/5)
Feb. 26 filed $7,000,000 first mortgage bonds, due 1969. **Underwriters**—To be determined by competitive bidding. Probable bidders, Halsey, Stuart & Co. Inc.; Lehman Brothers; Dillon, Read & Co. Inc.; Glore, Forgan & Co.; White, Weld & Co.; Harris, Hall & Co. (Inc.). **Proceeds**—Construction program. Expected about April 5.

Mountain States Telep. & Teleg. Co. (4/5)
March 5 filed $25,000,000 30-year debentures, due April 1, 1978, and 191,881 shares of capital stock ($100 par). **Underwriting**—Underwriters for bonds to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Harris, Hall & Co. (Inc.) and Drexel & Co. (jointly). Stock will be offered stockholders of record March 24 at $100 per share on a one-for-three basis. Rights expire April 26. American Telephone & Telegraph Co. owns 73.35% of outstanding stock. **Proceeds**—To repay advances from American Telephone & Telegraph Co. expected to amount to about $41,000,000 March 31, 1948. Expected about April 5.

Nalley's Inc., Tacoma, Wash.
Jan. 15 filed 119,152 shares of common stock (par $1.25). **Underwriters**—Walston, Hoffman & Goodwin and Hartley, Rogers & Co. **Offering**—63,785 shares are to be publicly offered (25,000 on behalf of company and 38,785 for account to Marcus Nalley, Chairman); 20,000 shares will be offered to employees, executives and directors and 35,367 shares are to be issued in acquisition of all publicly held stock or partnership interests in certain subsidiary and affiliated companies.

● **North Canadian Oils Limited, Calgary, Alberta, Canada**
March 11 filed 903,572 shares (no par) common stock. **Price**—70 cents each. **Underwriter**—F. H. Winter & Co., New York. **Proceeds**—875,000 shares being sold by company and 28,572 by stockholders. Proceeds for purchase of property and drilling.

● **North Inca Gold Mines, Ltd.**
March 10 filed 666,667 shares of common stock (par $1). **Underwriter**—Transamerica Mining Co., Ltd., Toronto. Proceeds for exploration and development.

● **Nulco Fabricators, San Francisco, Calif.**
March 5 (letter of notification) 7,500 shares of 6½% cumulative preferred stock (par $10); $75,000 6% notes due 1957 and 7,500 shares of common stock ($10 par). **Underwriter**—Hannaford & Talbot, San Francisco, will act as selling agents on best effort basis. Price, par for all issues. To pay off secured loans, with any balance to be used for working capital.

Ocean Downs Racing Association, Inc., Berlin, Md.
Nov. 28 filed 34,900 shares ($10 par) common. No underwriting. **Price** — $10 a share. **Proceeds**—To build trotting and pacing race track near Ocean City, Md.

Ohio Power Co., Canton, Ohio (3/31)
March 2 filed $40,000,000 first mortgage bonds, due 1978. **Underwriting**—To be determined by competitive bidding. Probable bidders, Dillon, Reed & Co. Inc.; The First Boston Corp.; Halsey, Stuart & Co. Inc.; Glore, Forgan & Co.; Harriman Ripley & Co., and Stone & Webster Securities Corp. (jointly). **Proceeds**—To be applied toward the retirement of 6% gold debenture bonds, due 2024, prepayment of $9,500,000 of notes floated for construction purposes, and $31 million to be deposited with the corporate trustee under the mortgage securing its first mortgage bonds. Expected about March 31.

Oklahoma Gas & Electric Co.
Feb. 20 filed 65,000 shares of cumulative preferred stock, ($100 par). **Underwriters**—To be determined under competitive bidding. Probable bidders: The First Boston Corp.; Harriman, Ripley & Co.; Lehman Brothers and Blyth & Co., Inc. (jointly). **Proceeds**—To be applied toward construction program.

● **Old North State Insurance Co., Greenville, N. C.**
March 15 filed 100,000 shares of capital stock ($5 par). **Price**—$15 each. **Underwriter**—First Securities Corp., Durham, N. C. **Proceeds**—General business purposes. **Business**—Insurance.

Pacific Gas and Electric, San Francisco
Jan. 29 filed 686,953 shares ($25 par) common stock. **Underwriting**—none. **Offering**—To be offered at par to holders of outstanding common stock of record Feb. 27 at the rate of one share for each 10 held. Rights expire April 9. **Proceeds**—To finance a construction program.

● **Pacific Press, Inc., Los Angeles, Calif.**
March 12 (letter of notification) 33,333 shares of ($1 par) common stock. **Price**—$9 each. For additional working capital and general corporate purposes. No underwriting.

● **Pan American Sulphur Co., Dallas, Texas**
Feb. 27 (letter of notification) 100,000 shares common stock (10¢ par). No underwriter. For further advances to subsidiary corporation for prospect drilling and general exploratory expenses of sulphur concessions in Mexico, and for general corporate purposes.

Pittsburgh Steel Co.
Nov. 20 filed $6,500,000 of first mortgage bonds, due 1967. **Underwriters**—Kuhn, Loeb & Co.; A. G. Becker & Co., Inc. and Hemphill, Noyes & Co. Price by amendment. **Proceeds** — To refund outstanding first mortgage bonds. Temporarily deferred.

(Continued on page 46)

(Continued from page 45)

Playboy Motor Car Corp., Tonawanda, N. Y.
Feb. 13 filed 20,000,000 shares common (1c par). **Price**—$1 per share. Not more than 100,000 shares will be offered to employees and officers at 87½ cents per share. **Underwriter**—Tellier & Co., New York. **Proceeds**—For capital equipment and working funds.

Public Service Co. of New Hampshire (3/23)
Feb. 6 filed 199,627 shares ($10 par) common stock. **Underwriters**—Kidder, Peabody & Co., and Blyth & Co., Inc., New York. **Offering**—To be offered present holders at rate of one share for each 3½ shares held. New England Public Service Co. will waive its rights to subscribe to 141,101 shares. **Price**—By amendment. **Proceeds**—Construction program and retire short-term loans. Expected late this month.

Pyramid Life Insurance Co., Charlotte, N. C.
Feb. 27 (letter of notification) 100,000 common shares ($1 par), to be offered to stockholders at $2 per share. No underwriter. For capital surplus.

Raleigh Red Lake Mines, Ltd., Toronto, Can.
Jan. 7 filed 460,000 shares of common stock. **Underwriter**—Mark Daniels & Co., Toronto, Canada. **Price**—25 cents a share in Canadian funds. **Proceeds**—For exploration and development of mining property.

Reiter-Foster Oil Corp., New York
Jan. 16 (letter of notification) 180,000 shares (50c par) common stock. **Price**—80 cents. **Underwriter**—Frank W. Bennett & Co. For working capital.

● **Robinson Airlines Corp., Ithaca, N. Y.**
March 9 (letter of notification) 85,384 shares of common stock (par $1). Of the total 75,384 shares will be offered for subscription by stockholders on a share for share basis at $3 per share. The additional 10,000 shares plus any unsubscribed for by stockholders will be offered the public at $4 per share. **Underwriting**—Company may engage an underwriter to make the general public offering. Proceeds will be used for working capital, etc.

● **Rumford Printing Co., Concord, N. H.**
March 1 (letter of notification) 3,000 shares common stock ($100 par). No underwriters. To refund mortgage notes, for plant replacements and improvements and for working capital.

Safety Heat Elements Inc., Middletown, Conn.
Feb. 27 (letter of notification) 30,000 shares of common stock (par 10¢). **Price**—$3.25 per share. **Underwriter**—H. P. Carver Corp., Boston. Proceeds to selling stockholder.

Sanitary Products Corp., Taneytown, Md.
Feb. 26 (letter of notification) 11,250 shares of common stock (no par). **Price**—$20 per share. **Underwriter**—Jackson & Co., Boston. For equipment and working capital.

Schenectady (N. Y.) Discount Corp. (4/1)
Feb. 26 (letter of notification) $100,000 20-year subordinated debentures. **Price**—$100. **Underwriting**—None. General corporate purposes.

Selected American Shares, Inc.
March 1 filed 300,000 shares of common stock (par $2.50). Proceeds for investment.

Seminole Oil & Gas Corp., Dallas, Texas
March 4 (letter of notification) 11,400 shares of common stock. **Underwriter**—Buckley Bros. Proceeds to selling stockholders.

Service Caster & Truck Corp., Albion, Mich.
Jan. 30 filed 80,000 shares of common stock (par $1). **Underwriters**—Names to be filed by amendment. **Price**—$7. **Proceeds**—Proceeds together with funds from private sale of $600,000 of 4¾% debentures and $250,000 of 6% subordinated debentures, will be used to pay off indebtedness.

● **Shareholders' Trust of Boston**
March 16 filed 500,000 shares of capital stock (par $1). **Underwriter**—Harriman Ripley & Co., Inc. **Price**—Net proceeds to the trust will be $20 per share. **Business**—A newly-formed diversified open-end investment company.

Silver Bell Mines Co., Denver
Feb. 26 filed 125,000 shares ($1 par) capital stock. **Price**—$2.50 each. **Offering**—To be made to present stockholders on a pro rata basis during first 10 days of sale. **Proceeds** — Exploration work, working capital and indebtedness.

South Carolina Electric & Gas Co.
Dec. 2 filed 80,858 shares ($50 par) cumulative convertible preferred and 404,293 shares ($4.50 par) common for sale, and 687,293 shares reserved for conversion of preferred. **Underwriter**—Kidder, Peabody & Co., New York. **Offering**—Shares initially will be offered for subscription by company's common stockholders, the preferred on a 1-for-10 basis and the common on a 1-for-2 basis. Unsubscribed shares will be offered publicly. Price by amendment. **Proceeds**—Proceeds together with other funds will be used to purchase all of the outstanding common of South Carolina Power Co. from the Commonwealth & Southern Corp.

● **Southern California Gas Co., Los Angeles (5/4)**
March 16 filed $15,000,000 3¼% first mortgage bonds, due 1978. **Underwriters**—Names by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Harris, Hall & Co. (Inc.); Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—To reimburse treasury for expenditures made to expand properties. Expected around May 4.

Southern Counties Gas Co. of Calif. (4/6)
Feb. 26 filed $7,000,000 3¼% first mortgage bonds, due 1978. **Underwriting**—To be determined by competitive bidding. Probable bidders: Blyth & Co., Inc.; Halsey, Stuart & Co. Inc.; The First Boston Corp. and Harris, Hall & Co. (Inc.) (jointly); W. C. Langley & Co. and Glore, Forgan & Co. (jointly); White, Weld & Co. **Proceeds**—To reimburse treasury for capital expenditures, including construction costs. Expected April 6.

● **Southern Nevada Oil Industries, Ltd., Las Vegas, Nev.**
March 11 (letter of notification) 10,000 shares of common stock ($1 par). **Price**—$1 each. To buy oil and gas leases. No underwriting.

Southwestern Electric Service Co., Waco, Tex.
Feb. 9 (letter of notification) 25,000 shares of common stock to be offered to stockholders of record Feb. 16. Underwriters, none. For construction.

Sperti Foods, Inc., Hoboken, N. J.
Feb. 26 (letter of notification) 30,000 shares 5% cumulative convertible preferred stock, ($10 par). **Price**—$10 each. **Underwriters**—White, Noble & Co., Detroit, and Clair S. Hall & Co., Cincinnati. To operate pharmaceutical division and for general corporate purposes.

Steak 'n Shake, Inc., Bloomington, Ill.
Feb. 2 filed 40,000 shares of 50c cumulative convertible participating preferred stock, ($1 par) and 160,000 shares (50c par) common stock, of which 40,000 will be sold and the remainder reserved for conversion. **Underwriter**—White & Co., St. Louis, Mo. **Price**—$8 for the preferred stock and $2.50 for the common. This stock is being offered by stockholders who are members of the Belt family.

Terminal Refrigerating & Warehousing Corp., Washington, D. C.
Feb. 17 filed $700,000 4% 10-year first mortgage bonds due 1958. **Underwriter**—Alex. Brown & Sons, Baltimore. **Price**—Par. **Proceeds**—To retire $635,000 of 4½% first mortgage bonds due April 1, 1948.

Texas Electric Service Co. (3/29)
Feb. 20 filed $5,000,000 first mortgage bonds, due 1978, and $5,000,000 of sinking fund debentures, due 1973. **Underwriters**—To be determined by competitive bidding. Probable bidders, Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harriman, Ripley & Co.; Blyth & Co., Inc., Kidder, Peabody & Co., and Smith, Barney & Co. (jointly); Glore, Forgan & Co., and W. C. Langley & Co. (jointly); White, Weld & Co.; Hemphill, Noyes & Co., and Drexel & Co. (jointly). **Proceeds**—Finance construction program. Expected about March 29.

Texas Power & Light Co., Dallas, Tex.
March 8 filed $7,000,000 sinking fund debentures, due 1973, and $2,000,000 of first mortgage bonds, due 1978. **Underwriting**—To be determined through competitive bidding. Probable bidders: The First Boston Corp., Halsey, Stuart & Co. Inc., Blyth & Co., Inc., Smith, Barney & Co. and Kidder, Peabody & Co. (jointly); Hemphill, Noyes & Co. and Drexel & Co. (jointly); W. C. Langley & Co., and Glore, Forgan & Co. (jointly); White, Weld & Co.; Harriman Ripley & Co., and F. S. Moseley & Co. (jointly); Lehman Brothers. **Proceeds**—For construction purposes.

● **Topside Oil Corp., Denver, Col.**
Feb. 27 (letter of notification) 40,000 shares (no par) non-assessable stock. No underwriters. For oil drilling and developments.

● **Trans-World Syndicate, Inc., Las Vegas, Nev.**
March 9 (letter of notification) 5,000 shares of common stock. **Price**—$100 each. For offices and publicity. No underwriting.

● **Tungsten Mining & Milling Co., Spokane, Wash.**
Feb. 24 (letter of notification) 2,000,000 shares of common (10¢ par). No underwriter. For mining operations and to secure equipment.

Utah Power & Light Co. (3/29)
Feb. 19 filed $3,000,000 first mortgage bonds, due 1973, and $3,000,000 of sinking fund debentures, due 1973. **Underwriting**—To be determined by competitive bidding. Probable bidders include: Halsey, Stuart & Co. Inc.; The First Boston Corp. and Blyth & Co., Inc. (jointly); Kidder, Peabody & Co., Merrill Lynch, Pierce, Fenner & Beane, R. W. Pressprich & Co. and Equitable Securities Corp. (jointly); Smith, Barney & Co. and Union Securities Corp. (jointly); White, Weld & Co.; Harriman Ripley & Co. **Proceeds**—For corporate purposes, including construction. **Bids**—Separate bids for the purchase of the securities will be received by the company up to noon (EST) March 29 at 2 Rector Street, New York.

● **Valencia Fuel Co., Inc., Albuquerque, New Mex.**
March 2 (letter of notification) 22,500 shares common stock. No underwriter. For oil drilling operations and coal development purposes.

Virginia Electric & Power Co. (4/6)
Feb. 17 filed $11,753,800 convertible debentures due 1963. **Underwriter**—Stone & Webster Securities Corp., Boston. **Offering**—Offered for subscription by common stockholders of record March 15 at rate of $100 of debentures for each 25 shares held. Rights expire April 5. **Price**—Par. **Proceeds**—For construction expenditures, etc. Issue of $10,000,000 3% 1st and ref. bonds, series F, due 1978, offered March 17 by White, Weld & Co and associates at 100.99 and interest.

● **Western Seed Separator, Inc., Seattle, Wash.**
Feb. 25 (letter of notification) 50,000 shares preferred stock and 50,000 shares of common to be offered in units of one share of each at $1.01 per unit. No underwriter. To pay company's debts, for manufacturing and promoting the sale of seed separating devices and for its operating expenses and general overhead.

West Penn Power Co. (3/22)
Feb. 20 filed 12,000,000 Series M first mortgage bonds due March 1, 1978; 50,000 shares of Series B preferred stock ($100 par) and about 2,000,000 shares (no par) common stock. **Underwriters**—To be determined under competitive bidding. Probable bidder: Halsey, Stuart & Co. Inc. (bonds only); W. C. Langley & Co. and The First Boston Corp. (jointly); Lehman Brothers; Kidder, Peabody & Co.; Smith Barney & Co. (preferred only). Common stock will be offered under a subscription plan, with details to be filed by amendment. **Proceeds**—To be applied toward the payment of $4,000,000 of bank loans and toward construction expenses. **Bids**—Bids for the purchase of the bonds and preferred stock will be received by the company at Room 901, 50 Broad Street, New York, up to noon (EST) March 22.

Wilson-Jones Co. (3/19)
Feb. 25 filed 32,937 shares of common stock (par $10). **Underwriters**—None. **Offering**—To be offered for subscription by stockholders of record March 19 in ratio of one new share for each eight shares held. Rights will expire on or before April 30. **Price**—$12 per share. **Proceeds**—Plant additions and purchase of securities and assets of other companies.

Prospective Offerings

● **Chicago, Milwaukee, St. Paul & Pacific RR. (3/29)**
The company has issued invitations for bids to be received before noon (CST) March 29 for $2,640,000 equipment trust certificates. Certificates will be dated April 1, 1948, and mature in 20 semi-annual instalments from Oct. 1, 1948 to April 1, 1958. Probable bidders include: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

Denver & Rio Grande Western RR. (3/23)
The company has issued invitations for bids to be received March 23 for $4,530,000 in equipment trust certificates, dated May 1, 1948, and maturing semi-annually over a period of 15 years. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co. and Lehman Brothers (jointly); Kuhn, Loeb & Co. and Blyth & Co., Inc. (jointly).

● **Detroit Edison Co.**
March 16 plans for the sale of securites to finance a two-year expansion program estimated to cost $60,000,000 were announced by Prentiss M. Brown, Chairman. He said no definite plans or details of the financing are available, but company's present position with respect to bonds and stock outstanding was such that new money probably would be raised equally between sale of new bonds and stock. It was said to be probable that bonds would be sold later this year and that the stock sale would be delayed until 1949. Probable bidders for bonds if issued: The First Boston Corp.; Halsey, Stuart & Co. Inc.; Dillon, Read & Co.; Coffin & Burr, Inc. and Spencer Trask & Co. (jointly).

● **Illinois Central RR. (3/18)**
The company is asking for bids to be opened March 18 on $4,997,000 equipment trust certificates. The issue will mature semi-annually Aug. 1, and Feb. 1, 1947-57. Probable bidders include: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

● **New Jersey Bell Telephone Co.**
March 11 directors authorized a $55,000,000 issue of debentures subject to approval of the State Board of Public Utility Commissioners of New Jersey. The company plans also to issue 200,000 additional shares of stock, which will be taken at $100 a share by the American Telephone & Telegraph Co. (parent). Probable bidders for debentures: Halsey, Stuart & Co. Inc.

● **New York Telephone Co.**
March 11 company announced its plan to apply to the New York P. S. Commission for authority to issue $90,000,000 of refunding mortgage 33-year bonds and offer them at competitive sale in July. Proceeds of the issue will be used to reimburse the treasury for capital expenditures already made, to retire bank loans incurred in plant expansion and to finance future construction. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc.

● **Pennsylvania RR. (3/31)**
Bids for the purchase of $10,995,000 equipment trust certificates will be received up to noon (EST) March 31, at office of Geo. H. Pabst, Jr., Vice-President. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

The "IMF"—A Troubled Infant

(Continued from page 16)

schemes of members or *faits accomplis*.

As an example of rewriting of the Articles by interpretation, a member will argue that, if its currency is obviously overvalued and it proposes what the Fund regards as only a partial devaluation, the Fund must agree because it is a step in the right direction; whereas the Fund interprets its duty as that of insisting on full and proper steps.

If the Fund finds even needy members recalcitrant—as is to be expected in an era when national sovereignty is preferred to the disciplines of international organization—it also has problems with less needy countries. Canada, which was one of the foremost supporters of the Bretton Woods idea only a few months ago in effect thumbed its nose at the Fund and United States efforts to get it to abandon the proposed gold-mining subsidy. It made a change in form, but not substance.

Britain's Position

The United Kingdom, interestingly, although long an advocate of a passive Fund along the lines of the "automatic" Keynes "Clearing Union," has latterly sought the Fund's help not only in the shape of very welcome dollars but morally in the contest with the French over the Paris "free market." That, London feared, would play havoc with the remaining prestige of the pound.

Devaluation of sterling, which is regarded as inevitable, as Britain's export competitors increase their trade pressure, will give the IMF plenty of work; for the step is sure to be attended by devaluations of other countries. So long as there is a seller's market for British goods, devaluation offers no advantages; but when the seller's market disappears, Britain still must export to live. Meanwhile the government suppresses inflation by drastic freezing of wages, prices and profits, while there is talk of a capital levy or forced loan.

Elbowed and buffeted by forces it cannot control in a climate its chief authors did not foresee at Bretton Woods, the IMF is working against great odds. It is one "leg of a table" still under construction, a table of obvious instability.

Michigan Brevities

(Continued from page 12)

Bendix outstanding, were the remainder of 500,000 shares acquired by General Motors when Bendix Aviation Corp. was organized in 1929.

Mr. Ferguson further said: "Because of the Bendix corporation's strong financial position it has been able to pay for all its post-war expansion and improvements and is carrying a substantially larger volume of business without resort to borrowings. Its present working capital warrants the expectation that it can continue to follow this course." Current assets at Sept. 30, 1947 amounted to $98,263,595, as against current liabilities of $35,163,593.

* * *

Hoover Ball & Bearing Co., according to C. W. Lighthall, its President, had a net profit for 1947 of $776,018, equal to $4.45 per share, compared with $415,748 for 1946, equal to $2.38 per share on the stock now outstanding. During 1947, dividends paid aggregated $348,560.

* * *

Allied Products Corp., Detroit, in 1947 enjoyed the largest dollar volume of sales of any peacetime year in its history, the aggregate reaching $7,796,108 as compared with $5,898,144 for the year ended Dec. 31, 1946, according to Ralph Hubbart, President. Net income amounted to $924,281 after charges and Federal income taxes, as compared with $574,466 for the preceding year. The usual quarterly dividend of 40 cents per share has been declared, payable April 1, 1948 to stockholders of record March 12.

* * *

Net profit of Superior Tool & Die Co. for the fiscal year ended Nov. 30, 1947 amounted to $138,444, or 22½ cents per share. Net sales for the year were $3,897,187. M. L. Jacobs, President, stated that business improved substantially in the second half of 1947 and there is now on hand a backlog of orders in the die division or approximately $2,500,000.

* * *

The **Peninsular Metal Products Co.** declared a dividend of 5 cents, payable March 24 to holders of record March 17; **Union Investment Co.** 10 cents, payable April 1 to holders of record March 15; and **American Metal Products Co.** 50 cents, payable March 31 to holders of record March 16.

$14 Million Bonds of Wash. Bridge Authority Offered by Syndicate

Issue of 3¾s, due 1978, offered by Kuhn, Loeb & Co. and A. C. Allyn & Co. group at par.

Public offering is being made today of a new issue of $14,000,000 Washington Toll Bridge Authority 3¾% bonds, at a price of par and accrued interest, by a syndicate managed by Kuhn, Loeb & Co. and A. C. Allyn & Co., Inc. The bonds, issued to finance construction of the Tacoma Narrows Toll Bridge, mature March 1, 1978, and are optionally redeemable. They are payable solely out of revenues from the Tacoma Narrows Bridge.

Wood, Gundy Group to Market $40 Million Ontario Debentures

Hon. Leslie M. Frost, Treasurer of the Province of Ontario, announces a new issue of $40,000,000 principal amount of Province of Ontario 3% debentures, to mature April 15, 1965. The new debentures will be dated April 15, 1948 and be callable on and after April 15, 1962, at 100 and interest. The financing is for refunding purposes and is being handled by a large syndicate of investment dealers and banks headed by Wood, Gundy & Co. Ltd. The offering price will be 98.75 and accrued interest, to yield about 3.09%.

Our Reporter's Report

Sudden decision of President Truman to go before the Congress and outline, in a special message, the gravity of the international situation served to upset the equity market and the more speculative fringe of the investment list.

But it exerted little or no immediately visible influence on the high grade bond market and certainly there was no apparent diminution of investor interest in new issues judging by the satisfactory response which greeted the week's new offerings.

Embracing the State of Ohio's $200,000,000 of veteran bonus financing the total for the week went above the $300,000,000 figure, swelled as it was by the Pacific Telephone & Telegraph Co.'s $75,000,000 of new 30-year debentures.

Three other issues of $10,000,000 each, one for an industrial company, the American Optical Co., and the other two for public utilities, namely Virginia Electric & Power Co., and Louisiana Power & Light Co., rounded out the fare offered to investors.

The American Optical Co.'s debentures were, of course, sold via the negotiated route, but the other offerings were marketed through competitive bidding, and certainly no one could complain of anything approaching a lack of vigorous competition.

Pacific Telephone

The offering by this big West Coast segement of the Bell System found the usual banking houses heading the groups which were arrayed against each other.

And while there were only two syndicates in the field due to the dimension of the undertaking these competitors certainly were shown to have been thinking pretty much up the same street in arriving at their bids.

The successful group bid 102.07999 for the $75,000,000 of 30-year debentures with a 3¼% coupon. The runner-up, also carrying the bid out to five decimals offered to pay 102.03999 for the same coupon. Now that's a difference of only 40 cents on each $1,000 bond, or $30,000 on the overall issue, which is mighty close figuring.

On reoffering at 102.75 to yield 3.11% the debentures were taken up quickly and the books closed.

Ohio Bonds Go to Premiums

Credit rating makes the price and that's beyond question when you cast your eye over the results of the State of Ohio's bonus bond sale.

The State has no bonded debt, or least had none until now, and bidders for its huge veteran issue, along with investors, appeared to be fully appreciative of this fact.

A huge national syndicate paid the State 100.577 for a 2% interest rate on its one to 15 year serials, and as something of a surprise, there was a second bid, from a mid-western group, of 100.2763 for the same coupon. The high bid gave the State an interest cost basis of 1.9289%.

Reoffering of the issue brought a quick oversubscription with all but the shortest maturities moving up to premiums of ½ to ¾ of a point. Compared with the recent New York State issue, the 10-year maturity was selling to yield about 1.80% against 1.85% for the similar New York issue.

Definitely On The Way

Utilities continued to lead the corporate field in search of new capital with consequent steady emission of new securities.

The latest to join the parade is Consolidated Natural Gas Co. which has gone into registration for $30,000,000 of 30-year debentures designed for public offering. Proceeds will finance the 1948 requirements of its projected construction program of $60,000,000.

Meantime the SEC has authorized the Utah Power & Light Co., to sell competitively $3,000,000 of first mortgage bonds, due 1978 and $3,000,000 of sinking fund debentures, due 1973.

It also has given approval to West Penn Power Co.'s plan to sell $12,000,000 of first mortgage bonds, $2,500,000 of additional common stock and 50,000 shares of $100 par preferred through competitive bidding.

With Kiser, Cohn & Shumaker

(Special to The Financial Chronicle)

INDIANAPOLIS, IND.—Roy H. Thompson, Jr., is with Kiser, Cohn & Shumaker, Inc., Circle Tower.

Joins Hayden Stone Staff

(Special to The Financial Chronicle)

PORTLAND, ME. — George W. Yeaton has joined the staff of Hayden, Stone & Co., 477 Congress Street.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, March 17.—President Truman's foreign affairs message to Congress yesterday has just about revolutionized the entire outlook in both the domestic and foreign fields. (See cover page for full text of the President's address.—Editor.)

In the foreign field, the President appeared to have struck out with a course of proposing the unprecedented step of a military alliance with Western Europe as the device to stop Russia. The President's proposal for revival of the draft and enactment of UMT were viewed by observers here in Washington as in a sense subsidiary to the proposed alliance. In other words, these were steps which the President proposed presumably to give the U. S. the beginning of a military potential to back up the guarantee, or whatever it may be called, of the military security of the five Western European nations and such additional countries as adhere to the pact they signed on Wednesday.

* * *

Thus the President now has added proposed military cooperation to economic aid, via ERP, as a means of halting the advancement of Russian hegemony over Europe. The U. S. has never had a major military alliance before in peace times.

* * *

This program, it is believed, is also attended with some considerable risks. One of the first risks is that it may induce the Russians to step up their program of advancement to get as far along with it as possible before coming face to face with the threat of war with the United States.

A second big risk is that Congress will not go along with the program in toto and promptly. The President's program looks like a single package designed to accomplish the purpose of showing to Russia that the United States means to fight should Russia continue her encroachments.

* * *

Its essence is that Congress shall quickly enact it, and all of it, to demonstrate thereby to Western Europe that the United States will back Western Europe in aiding armed aggression.

Thus, there is something of a large gamble, it would appear, in proposing a military alliance. If Congress does not approve, the Russians, it is feared, would take this as a sign that the U. S. had backed down and might act accordingly.

* * *

There is, hence, a two-pronged crisis ahead: How fast and how far Russia will move in the immediate future, and whether Congress will take the steps promptly to implement the new and relatively daring step taken by the Administration.

* * *

Since the President has stepped forth on such a large commitment, his domestic or election standing thus now appear at first glance to be tied almost wholly to the foreign kite. If Congress agrees with the President and goes along, then Mr. Truman presumably becomes something of a man of the hour.

* * *

On the other hand, should Congress reject any substantial part of the new foreign program the whole political campaign might turn on foreign affairs. It is not possible to guess now how it would turn, particularly in as much as public sentiment would then have to be gauged, and in the light of events which no one can now predict.

* * *

Mr. Truman's message also is of potential significance in another important respect. Its proposal for mobilizing military power so far relates only to mobilizing manpower. Thus passed over for the moment are all the vast possibilities which are involved in any program needed to prepare for war in case the grand alliance is challenged. This means controls, inflation, national defense production, and many other huge programs.

* * *

There is a widespread belief that something must be done about Russia some time. There is an equally widespread belief that Mr. Truman is not the man to do it. Can't say yet what the seasoned reaction of Congress will be toward the latest Administration offensive in foreign affairs. The view was held at the Capitol that the Administration has been appeasing Russia, beginning with the late President Roosevelt and continuing or continued with Mr. Truman.

But you can take it for granted that Congress will do some pretty heavy thinking. It will be deliberate, and it will be most chary of using the present incumbent of the White House more than is necessary.

* * *

There is one explanation why the House Foreign Affairs committee tied China aid into the same package with the big foreign aid authorization and military aid for Turkey and Greece. They feared that unless they wrapped all three together, the Administration would get China aid killed.

* * *

Guessing here is that Secretary Anderson, before he retires to become candidate for the Democratic Senatorial nomination in New Mexico, will order a boost of 50 million bushels in the export goal of wheat for Europe, making the total goal 500 million bushels instead of 450 million bushels. Anderson may legally do this, it is said, when cattle feeding prospects show that nevertheless 150 million bushels of wheat will remain as carryover from the present crop.

* * *

If the fuel oil shortage worsens next year, keep your eye on shale. Of all the "synthetics," shale offers the most immediate prospect for development. There are according to government estimates, 200 billion barrels, and according to industry estimates, 300 billion barrels, of shale reserves in Colorado. Some are held by the Navy. Many are privately owned. Shale oil, according to informed sources, can just about be developed now at present prices, and with a pipeline to carry it to California, could be refined in that area where it is most needed. Shale, however, is only a good bet if there is need for heating oil. Shale is said not to be so readily adaptable to heavy fuel oil or gasoline. The pipeline would involve the biggest cost.

Incidentally, Senator Wherry's proposal that all state proration laws regulating oil production be suspended has got industry as well as the government puzzled. It is said that there is neither the refining capacity for additional crude nor the steel to put in wells if this should happen.

* * *

It is easy to be misled by the reports that the Senate bill continuing RFC would put a crimp in that agency's activities. One thing which the Senate bill would do would be to cut RFC's outstandings in half, or to $1 billion from its present authority of $2 billion. Actually, RFC would not exhaust its $1 billion for a few years at its present volume, since the agency's principal current function is making business loans, primarily to small business, either directly or in participation with commercial banks. (The $1 billion on outstandings is exclusive of, and additional to, its billions of old loans now in liquidation.)

A limitation of $1 billion, of course, would prevent RFC from engaging extensively in industry financing. So would a limitation of $2 billion. Actually, however, if RFC ever resumes lending on a big scale it is likely to do so because Congress, because of different economic conditions, orders it to do so.

Thus the Senate RFC continuance bill actually would retain the agency as a going concern. Even its small volume of business would enable it to retain its staff, and be available in case a future Congress wanted it to meet some future emergency.

The proposal in the Senate bill to lower the ratio of RFC liability on participation loans to 65% from 75%, may have the effect of causing the RFC to make a slightly larger proportion of its small business loans direct, and a smaller proportion on a participation basis.

* * *

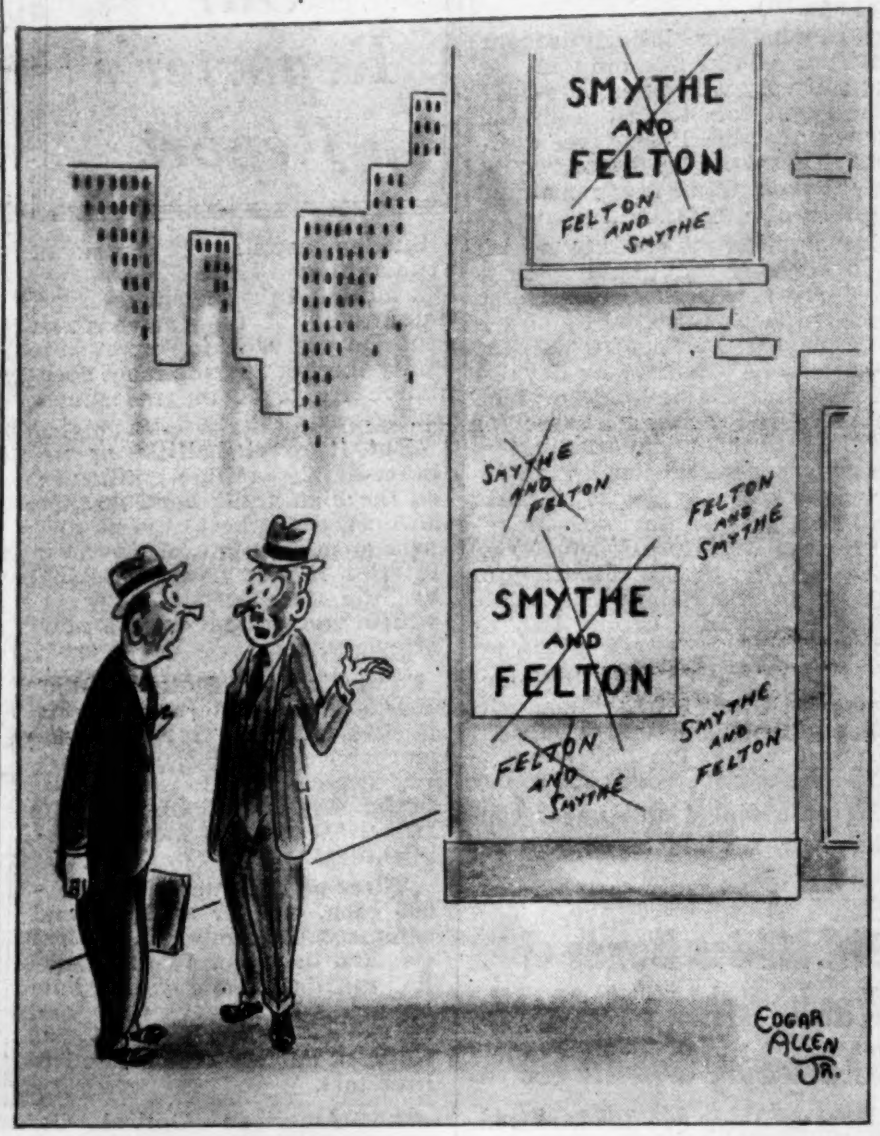
There is a pitfall to the pending proposal sponsored by several Senators for a "Little Budget Bureau", of Congress, consisting of a committee of Senators and Representatives, assisted by a staff to sift appropriation requests and thus to help reduce expenses. The idea of this proposal is that somebody representative of the Congress would have a long advance look at spending requests and have some information on which to offer to the standing Appropriations committees, suggestions on how to achieve reductions.

This is a fine scheme for operation at a time when the Congress is economy-minded and the Administration is the opposite. Any scheme, it is suggested, which aids the Congress to get background and judgment about the requests for supply, is useful.

Nevertheless, no small study committee can itself do much to achieve economy. What is really needed is a Presidential Budget Bureau, like the present, which is firmly directed toward promoting economy and efficiency. This can best be brought about when there is both an Administration and a Congress determined to reduce all unnecessary Federal spending.

On the other hand, when there is an Administration dedicated to economy, such a special "Little Budget" committee could provide advance tips of prospective expenditure cuts and pass them on to Congressional groups interested in countering economy for the sake of special interests.

BUSINESS BUZZ



"I understand they don't get along very well."